



Converse Bank CJSC

Consolidated financial statements

For the period ended 30 June 2019

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Consolidated statement of financial position**as of 30 June 2019***(thousands of Armenian drams)*

	Notes	30/06/2019	31/12/2018
Assets			
Cash and cash equivalents	6	46,368,456	40,470,858
Trading securities	7	853,371	1,160,345
Amounts due from banks	8	1,854,921	5,212,487
Loans and advances to customers	9	202,224,274	196,282,332
Investment securities	10	15,418,076	18,356,454
Investment securities pledged under repurchase agreements	10	6,832,307	8,092,013
Property, plant and equipment	11	6,801,120	6,739,038
Intangible assets	12	328,901	296,331
Repossessed assets	13	1,886,698	1,977,614
Other assets	14	3,250,924	2,531,906
Total assets		285,819,048	281,119,378
Liabilities			
Amounts due to banks	15	8,473,925	13,963,370
Derivative financial liabilities	16	129,585	26,583
Amounts due to customers	17	192,807,479	187,214,116
Debt securities issued	18	17,922,400	16,653,444
Current income tax liabilities		117,658	199,430
Deferred income tax liabilities	19	779,667	938,233
Other borrowed funds	20	16,568,290	15,684,413
Subordinated debt	21	5,772,752	5,852,819
Provisions on commitments and contingencies	22	69,070	70,056
Other liabilities	14	2,518,946	1,482,613
Total liabilities		245,159,772	242,085,077
Equity			
	23		
Share capital		16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		2,798,799	1,898,319
Revaluation surplus for land and buildings		2,996,285	3,057,881
Revaluation reserve for financial assets at FVOCI / available-for-sale financial assets		649,678	1,651,410
Retained earnings		17,734,648	15,946,825
Total equity		40,659,276	39,034,301
Total equity and liabilities		285,819,048	281,119,378

Signed and authorised for release on behalf of the Management Board of the Bank.

Arthur Hakobyan

Chief Executive Officer – Chairman of Executive Management

Lia Hovhannisyan

Acting Chief Accountant

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of profit and loss**for the period ended 30 June 2019***(thousands of Armenian drams)*

	Note.	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Interest revenue calculated using effective interest rate	24	5,880,639	11,646,567	5,053,254	9,892,776
Other interest revenue	24	23,585	45,344	25,202	45,306
Interest expense	24	(2,710,827)	(5,349,633)	(2,359,952)	(4,608,694)
Net interest income		3,193,397	6,342,278	2,718,504	5,329,388
Credit loss expense	25	(596,111)	(627,647)	(267,225)	(627,544)
Net interest income after credit loss expense		2,597,286	5,714,631	2,451,279	4,701,844
Fee and commission income	26	730,258	1,378,532	625,773	1,200,277
Fee and commission expense	26	(239,082)	(458,204)	(193,802)	(402,492)
Net trading income	27	218,327	483,655	492,148	831,831
Net loss from foreign currency translation		(71,057)	(32,285)	(266,778)	(313,626)
Gains less losses from investment securities measured at fair value through other comprehensive income		214,974	304,785	39,044	235,705
Other income	28	335,922	505,264	232,215	404,166
Non-interest income		1,189,342	2,181,747	928,600	1,955,861
Personnel expenses	29	(1,305,896)	(2,635,855)	(1,195,850)	(2,336,565)
Depreciation of property and equipment	11	(169,112)	(331,041)	(143,785)	(289,809)
Amortization of intangible assets	12	(19,446)	(36,165)	(14,531)	(28,149)
Administrative and other operating expenses	29	(928,478)	(1,759,728)	(742,957)	(1,491,041)
Non-interest expense		(2,422,932)	(4,762,789)	(2,097,123)	(4,145,564)
Profit before income tax expense		1,363,696	3,133,589	1,282,756	2,512,141
Income tax expense	14	(424,439)	(795,203)	(279,027)	(500,395)
Profit for the year		939,257	2,338,386	1,003,729	2,011,746
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>					
Unrealized gains/(losses) on investments at fair value through other comprehensive income		128,116	191,322	(69,038)	188,036
Realised gains on investment securities available-for-sale transferred to profit or loss		(214,974)	(304,785)	(39,044)	(235,705)
Income tax effect	19	11,174	250,433	23,461	7,737
Net other comprehensive (loss)/income to be reclassified subsequently to profit or loss		(75,684)	136,970	(84,621)	(39,932)
Other comprehensive (loss)/income for the year, net of tax		(75,684)	136,970	(84,621)	(39,932)
Total comprehensive income for the year		863,573	2,475,356	919,108	1,971,814

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the period ended 30 June 2019
(thousands of Armenian drams)

	Share capital	Share premium	Statutory general reserve	Revaluation reserve for securities at fair value through OCI/ available-for-sale financial assets	Revaluation reserve of PPE	Retained earnings	Total
Balance as at 1 January 2018	16,416,633	63,233	1,243,064	2,261,342	3,181,072	12,153,968	35,319,312
Issue of share capital			655,255	-	-	(655,255)	-
Dividends to shareholders	-	-	-	-	-	(570,350)	(570,350)
Transactions with owners	-	-	655,255	-	-	(1,225,605)	(570,350)
Profit for the year	-	-	-	-	-	2,011,746	2,011,746
Other comprehensive income for the year	-	-	-	(39,932)	-	-	(39,932)
Total comprehensive income for the year	-	-	-	(39,932)	-	2,011,746	1,971,814
Depreciation of revaluation reserve	-	-	-	-	(61,595)	61,595	-
Balance as at 30 June 2018	16,416,633	63,233	1,898,319	2,221,410	3,119,477	13,001,704	36,720,776
Balance as at 1 January 2019	16,416,633	63,233	1,898,319	1,651,410	3,057,881	15,946,825	39,034,301
Distribution to general reserve	-	-	900,480	-	-	(900,480)	-
Dividends to shareholders	-	-	-	-	-	(850,381)	(850,381)
Transactions with owners	-	-	900,480	-	-	(1,750,861)	(850,381)
Profit for the year	-	-	-	-	-	2,338,386	2,338,386
Other comprehensive income for the year	-	-	-	(1,001,732)	-	1,138,702	136,970
Total comprehensive income for the year	-	-	-	(1,001,732)	-	3,477,088	2,475,356
Depreciation of revaluation reserve	-	-	-	-	(61,596)	61,596	-
Balance as at 30 June 2019	16,416,633	63,233	2,798,799	649,678	2,996,285	17,734,648	40,659,276

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**for the period ended 30 June 2019***(thousands of Armenian drams)*

	Note	30/06/2019	30/06/2018
Cash flows from operating activities			
Interest received		11,006,257	10,151,980
Interest paid		(6,034,421)	(4,337,153)
Fees and commissions received		1,378,532	1,200,277
Fees and commissions paid		(458,204)	(402,492)
Net income from financial assets at fair value through profit or loss		483,655	831,831
Other income received		485,458	384,464
Administrative expenses paid		(2,582,029)	(2,282,896)
Other operating expenses paid		(1,789,747)	(1,520,373)
Cash flows from operating activities before changes in operating assets and liabilities		2,489,501	4,025,638
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		306,974	(254,889)
Amounts due from banks		3,303,626	5,840,913
Loans and advances to customers		(4,054,039)	(3,436,862)
Reposessed assets		90,916	(182,860)
Other assets		(714,844)	149,515
<i>Net increase/(decrease) in operating liabilities</i>		(5,621,542)	(4,622,675)
Amounts due to banks		4,720,077	(4,142,808)
Amounts due to customers		103,235	(34,247)
Derivative financial liabilities		(388,814)	768,244
Other liabilities		306,974	(254,889)
Net cash used in operating activities before income tax		235,090	(1,890,030)
Income tax paid		(785,108)	(494,161)
Net cash used in operating activities		(550,018)	(2,384,191)
Cash flows from investing activities			
Purchase of investment securities at FVOCI		(4,621,683)	(9,823,125)
Proceeds from sale and redemption of investment securities at FVOCI		9,927,904	8,062,260
Purchase of securities at amortised cost		1,370,685	1,223,970
Purchase of intangible assets		(68,735)	-
Purchase of property and equipment		(468,542)	(221,681)
Proceeds from sale of property and equipment		2,332	315
Net cash used in investing activities		6,141,960	(758,261)
Cash flows from financing activities			
Proceeds from bonds issued		5,854,851	7,812,808
Redemption of bonds issued		(4,416,654)	(257,264)
Proceeds from other borrowed funds		2,233,060	3,656,170
Repayment of other borrowed funds		(3,121,544)	(6,242,131)
Repayment of subordinated debt		(161,641)	(43,589)
Dividends paid to shareholders		-	-
Net cash from financing activities		388,073	4,925,995
Net increase/(decrease) in cash and cash equivalents		5,980,015	1,783,543
Cash and cash equivalents at the beginning of the year		40,470,858	39,842,049
Effect of exchange rates changes on cash and cash equivalents		(82,418)	(406,691)
Cash and cash equivalents at the end of the year	6	46,368,456	41,218,901

The accompanying notes on pages 6 to 60 are an integral part of these consolidated financial statements.

(thousands of Armenian drams)

1. Principal activities

“Converse Bank” CJSC (the “Bank”) is the parent company in the Group. It was formed on 1994 as a closed joint-stock bank under the laws of the Republic of Armenia. The Bank operates under a general banking license issued by the Central Bank of Armenia (the “CBA”) on 28 November 1994 and conducts its business under license number 57.

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.

Converse Collection was formed as a limited liability company under the laws of the Republic of Armenia on 20 April 2000. The company’s principal activity is transportation of cash, cash equivalents and other assets. The company is a subsidiary of the Bank and was consolidated in these financial statements.

As of 30 June, the following shareholders of the Bank are:

Shareholder	30/06/2019, %	2018, %
Advanced Global Investments LLC	80.94	80.94
Haypost Trust Management BV	14.06	14.06
Mother See of Holy Etchmiadzin	5.00	5.00
Total	100.0	100.0

The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

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.

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

2. 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 under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank’s and its subsidiary’s functional and 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.

(thousands of Armenian drams)

2. Basis of preparation (continued)

3. Summary of accounting policies

Changes in accounting policies

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ▶ Instruments that are managed on a “hold to collect” basis are measured at amortised cost;
- ▶ Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- ▶ Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group’s accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Group's impairment method are disclosed in Note 30.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Group's income are not impacted by the adoption of this standard.

The Group adopted the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from banks, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and under IFRS 9— an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of 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 of origination and are free from contractual encumbrances.

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.

Repurchase and reverse repurchase agreements and securities lending

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 recognised 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

The Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

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.

Leases

Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Group as lessee

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

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.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business;
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

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.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are

(thousands of Armenian drams)

credited to credit loss expense. A write-off constitutes a derecognition event.

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 profit or loss.

Taxation

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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 consolidated 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.

Property 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 revalued amounts. 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 revalued amount. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	20	5
Computers and communication equipment	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 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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.

Intangible assets

Intangible assets include computer software, licenses 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.

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 recognised 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.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Share capital (continued)

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

Includes 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 consolidated financial statements are authorised for issue.

Property revaluation surplus

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

Revaluation reserve for investment securities

This reserve records fair value changes in available-for-sale-investments / investments at fair value through other comprehensive income.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking.

Contingencies

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

Recognition of income and expenses

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

Interest and similar revenue and expense

the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

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 recognised when the Group's right to receive the payment is established.

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 recognised in the consolidated statement of profit and 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 CBA exchange rates at 30 June 2019 and 31 December 2018 were AMD 477.11 and AMD 483.75 to 1 USD, respectively.

4. Significant accounting judgments and estimates

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 consolidated financial statements are presented below:

Revaluation of land and buildings

Fair value of the properties is determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The Group engages independent experts for valuation of its premises.

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

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 31).

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ Statistical models to estimate PDs, EADs and LGDs on a collective basis;
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis;
- ▶ Development of ECL models, including the various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

5. Segment information

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

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate banking	Principally 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. Income taxes are managed on a profit before income tax basis and are allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 30 June 2019 or 2018.

(thousands of Armenian drams)

5. Segment information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments.

<i>As of June 30, 2019</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Trading and IB</i>	<i>Total</i>
External income				
Interest revenue calculated using effective interest rate	5,910,964	4,514,806	1,220,795	11,646,565
Other interest revenue	483	1,727	43,134	45,344
Interest expense	(1,748,618)	(2,568,620)	(1,032,395)	(5,349,633)
Net interest income	4,162,829	1,947,914	231,534	6,342,277
Credit loss expense	(293,165)	(342,701)	8219	(627,647)
Fee and commission income	998,949	352,155	27,428	1,378,532
Fee and commission expense	(337,001)	(121,150)	(53)	(458,204)
Other non-interest income	566,960	509,150	185,309	1,261,419
Non-interest expense	(1,993,850)	(2,049,771)	(719,170)	(4,762,791)
Segment profit	3,104,723	295,597	(266,733)	3,133,588
Income tax expense	(787,878)	(75,013)	67,688	(795,203)
Profit for the period	2,316,845	220,584	(199,045)	2,338,385

<i>As of June 30, 2018</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Trading and IB</i>	<i>Total</i>
External income				
Interest revenue calculated using effective interest rate	4,856,136	3,612,513	1,424,127	9,892,776
Other interest revenue	84	3,750	41,472	45,306
Interest expense	(1,642,568)	(2,373,538)	(592,588)	(4,608,694)
Net interest income	3,213,652	1,242,725	873,011	5,329,388
Credit loss expense	(226,915)	(400,629)	8,985	(618,559)
Fee and commission income	894,562	274,200	31,515	1,200,277
Fee and commission expense	(298,029)	(104,463)	-	(402,492)
Other non-interest income	436,047	331,488	381,556	1,149,091
Non-interest expense	(1,682,605)	(1,870,169)	(592,785)	(4,145,559)
Segment profit/(loss)	2,336,712	(526,853)	702,282	2,512,141
Income tax expense	(327,910)	(73,933)	(98,551)	(500,395)
Profit for the period	2,008,802	(600,786)	603,731	2,011,746

The following table presents segment assets of the Group's operating segments:

	<i>As of June 30, 2019</i>			
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Trading and IB</i>	<i>Total</i>
Interest earning financial assets	99,094,552	103,129,722	24,958,675	227,182,949
Interest bearing financial liabilities	89,249,854	92,178,920	43,094,200	224,522,974
	<i>As of June 30, 2018</i>			
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Trading and IB</i>	<i>Total</i>
Interest earning financial assets	76,087,813	93,813,403	35,289,211	205,190,427
Interest bearing financial liabilities	77,875,273	98,938,540	39,811,748	216,625,561

Interest earning assets include financial assets through profit and loss, investment securities, loans to banks, loans and advances to customers.

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

(thousands of Armenian drams)

5. Segment information (continued)**Geographic information**

The Group's operations are primarily concentrated in Armenia. The Group has no current assets outside Armenia other than financial instruments.

Revenue from contracts with customers

Segment breakdown of revenue from contracts with customers in scope of IFRS 15 for the year ended 31 December 2018 is as follows:

<i>As of June 30, 2019</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Investment banking</i>	<i>Total</i>
Commission income				
Plastic cards operations	585,836	-	-	585,836
Wire transfer fees	233,522	98,317	769	332,607
Settlement operation	31,679	56,029	26,467	114,175
Loan accounts servicing fees	52,166	106,490	-	158,656
Guarantees and letters of credit	-	27,834	-	27,834
Other	95,747	63,485	192	159,424
Total revenue from contracts with customers	998,949	352,155	27,428	1,378,532

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30/06/2019</i>	<i>31/12/2018</i>
Cash on hand	10,170,596	8,731,933
Current accounts with the Central Bank, including obligatory reserves	34,011,942	29,218,035
Placements with other banks	2,193,421	2,526,734
Less – allowance for impairment	(7,503)	(5,844)
Cash and cash equivalents	46,368,456	40,470,858

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

	<i>30/06/2019</i>	<i>31/12/2018</i>
ECL allowance as at 1 January 2019	5,844	6,004
Changes in ECL	1,659	(160)
At 30 June 2019	7,503	5,844

As of 30 June 2019 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 (16% in AMD, 2% in currency), and amounts to AMD 26,169,146 thousand (2018: AMD 23,711,584 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 30 June 2019 placements with other banks in the amount of AMD 1,913,445 thousand (87.2%) were due from four banks (2018: AMD 2,128,984 thousand (84.3%) were due from three banks).

*(thousands of Armenian drams)***7. Trading securities**

Trading securities owned comprise:

	30/06/2019	31/12/2018
Investments in funds	244,993	640,554
Debt securities issued by the RA government	606,406	383,618
Corporate bonds	1,972	136,173
Trading securities	853,371	1,160,345

(thousands of Armenian drams)

8. Amounts due from banks

Amounts due from banks comprise:

	30/06/2019	31/12/2018
Loans and deposits to banks	-	1,937,868
Receivables from payment and settlement operations	713,961	1,286,688
Deposits and deposited funds with CBA	344,000	1,142,500
Other amounts	802,985	858,086
Reverse repurchase agreements	-	-
	1,860,946	5,225,142
Less – allowance for impairment	(6,025)	(12,655)
Amounts due from banks	1,854,921	5,212,487

As at 30 June 2019 the Group has no loans and deposits from banks (as at 31 December 2018 the Group has the balances included loans and deposits to banks in amount of AMD 1,937,868 thousand due from two counterparties).

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

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the period ended 30 June 2019 is as follows:

	Stage 1	Total
Gross carrying value as at 1 January 2019	5,225,142	5,225,142
New assets originated or purchased	-	-
Assets repaid	(3,364,196)	(3,364,196)
At 30 June 2019	1,860,946	1,860,946
	Stage 1	Total
ECL allowance as at 1 January 2019	12,655	12,655
New assets originated or purchased	-	-
Assets repaid	(22,956)	(22,956)
Changes to models and inputs used for ECL calculations	16,326	16,326
At 30 June 2019	6,025	6,025

9. Loans and advances to customers

	30/06/2019	31/12/2018
Loans to customers	165,311,919	160,878,193
Overdrafts	35,182,366	35,459,413
Reverse repurchase agreements	5,782,227	4,022,197
Financial lease receivables	81,238	300,884
Factoring	17,573	17,406
Letter of credit	1,953	3,634
	206,377,276	200,681,727
Less – allowance for loan impairment	(4,153,002)	(4,399,395)
Total loans and advances to customers	202,224,274	196,282,332
	30/06/2019	31/12/2018
Business loans	106,524,705	110,959,901
Consumer loans	40,789,751	35,520,946
Mortgage loans	38,481,212	35,030,730
Gold loans	20,581,608	19,170,150
Gross loans and advances to customers	206,377,276	200,681,727
Less – allowance for impairment	(4,153,002)	(4,399,395)
Total loans and advances to customers	202,224,274	196,282,332

9. Loans and advances to customers (continued)

(thousands of Armenian drams)

Allowance for impairment of loans and advances to customers

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans as of 30 June 2019

<i>Business loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	105,811,665	80,998	5,067,238	110,959,901
New assets originated or purchased	22,555,685.70			22,555,686
Assets repaid	(25,702,482)	(26,899)	(761,337)	(26,490,719)
Transfers to Stage 1	22,967	(16,859)	(6,109)	-
Transfers to Stage 2	(2,545,387)	2,675,435	(130,048)	-
Transfers to Stage 3	(980,940)	198,222	782,718	-
Recoveries			164,409	164,409
Amounts written off			(664,571)	(664,571)
At 30 June 2019	99,161,509	2,910,896	4,452,299	106,524,705
<i>Business loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2019	920,864	24,773	2,045,684	2,991,321
New assets originated or purchased	170,708			170,708
Assets repaid	(161,112)	-	(13,765)	(174,877)
Transfers to Stage 1	10,390	(5,154)	(5,236)	-
Transfers to Stage 2	(36,719)	64,950	(28,231)	-
Transfers to Stage 3	(15,708)	(19,341)	35,049	-
Impact on period end ECL of exposures transferred between stages during the period	(5,458)	62,468	89,236	146,247
Unwinding of discount (recognised in interest revenue)			4,559	4,559
Changes to models and inputs used for ECL calculations	(82,875)	(278)	(36,745)	(119,898)
Recoveries			164,409	164,409
Amounts written off			(664,571)	(664,571)
At 30 June 2019	800,090	127,418	1,590,389	2,517,897

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans as of 30 June 2019

<i>Consumer loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	33,728,877	492,077	1,299,992	35,520,946
New assets originated or purchased	12,891,388			12,891,388
Assets repaid	(6,587,046)	(131,569)	(581,916)	(7,300,531)
Transfers to Stage 1	185,615	(96,896)	(88,719)	-
Transfers to Stage 2	(1,261,837)	1,386,380	(124,543)	-
Transfers to Stage 3	(448,784)	(612,813)	1,061,597	-
Recoveries			396,442	396,442
Amounts written off			(718,493)	(718,493)
At 30 June 2019	38,508,213	1,037,179	1,244,360	40,789,751

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Allowance for impairment of loans and advances to customers (continued)**

Consumer loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	114,129	34,620	294,281	443,031
New assets originated or purchased	100,463			100,463
Assets repaid	(14,337)	(2,397)	(12,609)	(29,344)
Transfers to Stage 1	34,367	(6,846)	(27,520)	-
Transfers to Stage 2	(16,046)	39,956	(23,910)	-
Transfers to Stage 3	(29,674)	(21,419)	51,092	-
Impact on period end ECL of exposures transferred between stages during the period	(1,368)	41,679	158,884	199,195
Unwinding of discount (recognised in interest revenue)			12,649	12,649
Changes to models and inputs used for ECL calculations	(3,375)	2,128	188,608	187,362
Recoveries			396,442	396,442
Amounts written off			(718,493)	(718,493)
At 30 June 2019	184,160	87,721	319,423	591,305

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans as of 30 June 2019

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2019	33,078,667	120,962	1,831,101	35,030,730
New assets originated or purchased	6,512,481			6,512,481
Assets repaid	(2,869,507)	(33,118)	(194,623)	(3,097,247)
Transfers to Stage 1	295,920	(35,071)	(260,850)	-
Transfers to Stage 2	(165,794)	181,512	(15,717)	-
Transfers to Stage 3	(216,943)	(12)	216,954	-
Recoveries			236,796	236,796
Amounts written off			(201,548)	(201,548)
At 30 June 2019	36,634,825	234,273	1,612,113	38,481,212

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 20189	74,309	10,560	672,429	757,298
New assets originated or purchased	35,206			35,206
Assets repaid	(3,281)	(2,574)	(5,978)	(11,833)
Transfers to Stage 1	43,318	(3,700)	(39,619)	-
Transfers to Stage 2	(1,448)	4,268	(2,821)	-
Transfers to Stage 3	(5,696)	(4,175)	9,871	-
Impact on period end ECL of exposures transferred between stages during the period	3,352	14,176	26,823	44,352
Unwinding of discount (recognised in interest revenue)			4,645	4,645
Changes to models and inputs used for ECL calculations	(3,212)	(112)	(51,510)	(54,833)
Recoveries			236,796	236,796
Amounts written off			(201,548)	(201,548)
At 30 June 2019	142,550	18,444	649,087	810,082

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Allowance for impairment of loans and advances to customers (continued)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to business loans as of 30 June 2019

Gold loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2019	18,667,524	259,286	243,340	19,170,150
New assets originated or purchased	12,460,425			12,460,425
Assets repaid	(10,491,349)	(196,534)	(234,847)	(10,922,730)
Transfers to Stage 1	43,466	(36,235)	(7,231)	-
Transfers to Stage 2	(568,278)	616,656	(48,378)	-
Transfers to Stage 3	(153,468)	(212,008)	365,476	-
Recoveries			61,929	61,929
Amounts written off			(188,166)	(188,166)
At 30 June 2019	19,958,319	431,165	192,124	20,581,608

Gold loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	33,841	28,897	145,007	207,745
New assets originated or purchased	75,029			75,029
Assets repaid	(14,220)	(12,043)	(53,611)	(79,874)
Transfers to Stage 1	9,228	(4,057)	(5,171)	-
Transfers to Stage 2	(23,745)	33,636	(9,891)	-
Transfers to Stage 3	(26,548)	(10,361)	36,909	-
Impact on period end ECL of exposures transferred between stages during the period	(5,169)	18,908	92,526	106,265
Unwinding of discount (recognised in interest revenue)			4,834	4,834
Changes to models and inputs used for ECL calculations	(1,848)	(1,559)	49,364	45,957
Recoveries			61,929	61,929
Amounts written off			(188,166)	(188,166)
At 30 June 2019	46,568	53,420	133,730	233,719

9. Loans and advances to customers (continued)**Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For securities lending and reverse repurchase transactions, cash or securities;
- ▶ For commercial lending, charges over real estate properties, inventory and trade receivables;
- ▶ For retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit-impaired (stage 3) assets.

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario					
		Property	Other*	Surplus collateral	Total collateral	Net exposure	Associated ECL
30 June 2019							
Corporate lending	4,452,299	9,566,832	1,152,363	(6,270,632)	4,448,563	3,736	1,590,389

(thousands of Armenian drams)

Residential mortgages	1,612,113	2,759,394	20,480	(1,167,760)	1,612,113	-	649,087
Gold	192,124	-	343,741	(157,500)	186,241	5,883	133,730
Consumer lending	1,244,360	3,915,203	525,136	(3,531,671)	908,668	335,692	319,423
	7,500,897	16,241,429	2,041,720	(11,127,563)	7,155,586	345,311	2,692,630

	<i>Maximum exposure to credit risk</i>	<i>Fair value of collateral held under the base scenario</i>					<i>Associated ECL</i>
		<i>Property</i>	<i>Other*</i>	<i>Surplus collateral</i>	<i>Total collateral</i>	<i>Net exposure</i>	
31 December 2018							
Corporate lending	5,067,237	5,630,148	331,024	(2,556,426)	3,404,746	1,662,491	2,045,591
Residential mortgages	1,831,101	1,952,424	-	(735,993)	1,216,431	614,670	672,396
Gold	243,342	-	189,452	(10,063)	179,389	63,953	145,007
Consumer lending	1,300,312	1,572,468	90,328	(865,718)	797,078	503,234	294,283
	8,441,992	9,155,040	610,804	(4,168,200)	5,597,644	2,844,348	3,157,277

* Vehicles, machinery, other fixed assets, inventory and trade receivables.

Concentration of loans and advances to customers

As at 30 June 2019 the Group had a concentration of loans totalling to AMD 41,209,397 thousand due from the ten largest groups of borrowers (19.96% of gross loan portfolio) (2018: AMD 41,852,275 thousand or 20.9% of gross loan portfolio). An allowance for impairment in amount of AMD 1,377,724 thousand (2018: AMD 1,355,805 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	30/06/2019	31/12/2018
Private companies	98,900,106	105,218,342
Individuals	101,009,284	90,611,259
Financial organizations	5,782,227	4,022,198
State companies	685,659	829,928
	206,377,276	200,681,727

Loans are made principally within Armenia in the following industry sectors:

	30/06/2019	31/12/2018
Consumer loans to individuals	61,371,357	54,691,087
Mortgage	38,481,212	35,030,730
Trade	29,957,066	29,598,144
Other	32,898,327	23,968,584
Construction	14,260,538	19,054,286
Services	8,414,285	10,714,497
Agriculture (including loans to individuals)	8,138,584	10,122,610
Energy	3,420,450	8,403,730
Manufacturing	6,983,750	7,318,002
Transport and communication	2,451,707	1,780,057
Gross loan portfolio	206,377,276	200,681,727
Less allowance for loan impairment	(4,153,002)	(4,399,395)
Total	202,224,274	196,282,332

(thousands of Armenian drams)

9. Loans and advances to customers (continued)**Finance lease receivables**

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 30 June 2019 is as follows:

	30/06/2019	31/12/2018
Gross investment in finance lease, receivable		
Not later than 1 year	19,938	265,912
1-5 years	73,902	47,777
More than 5 years	21,697	-
	115,537	313,689
Unearned future finance income on finance lease	(34,300)	(12,805)
Net investment in financial lease, before impairment allowance	81,237	300,884
Impairment allowance	(885)	(231,623)
Net investment in finance lease	80,352	69,261

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	30/06/2019	31/12/2018
Debt securities at amortised		
RA government bonds	240,000	584,339
Less – allowance for impairment	(8)	(281)
Debt securities at amortised cost	239,992	584,058
RA government bonds pledged under repo	1,055,518	2,087,000
Less – allowance for impairment	(4,748)	(9,542)
Debt securities at amortised pledged under repurchase agreements	1,050,770	2,077,458
Debt securities at FVOCI		
RA government bonds	10,083,088	10,862,103
RA corporate bonds	5,031,869	5,825,950
Debt securities at FVOCI	15,114,957	16,688,053
RA government bonds	5,781,537	6,014,555
Debt securities at FVOCI pledged under repurchase agreements	5,781,537	6,014,555
Equity securities at FVOCI		
Equity shares of OECD countries	5,333	1,026,549
RA equity shares	57,794	57,794
Equity securities at FVOCI	63,127	1,084,343
Total	22,250,383	26,448,467

(thousands of Armenian drams)

10. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost is as follows:

Debt securities at amortised cost	Stage 1	Total
Gross carrying value as at 1 January 2019	2,671,339	2,671,339
New assets originated or purchased	564,179	564,179
Assets repaid	(1,940,000)	(1,940,000)
At 30 June 2019	1,295,518	1,295,518

Debt securities at amortised cost	Stage 1	Total
ECLs as at 1 January 2019	9,823	9,823
New assets originated or purchased	3,367	3,367
Assets repaid	(3,741)	(3,741)
Changes to models and inputs used for ECL calculations	(4,693)	-
At 30 June 2019	4,756	4,756

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities at FVOCI	Stage 1	Total
Gross carrying value as at 1 January 2019	22,702,608	22,702,608
New assets originated or purchased	2,350,277	2,350,277
Assets repaid	(208,736)	(208,736)
Assets sold	(3,947,655)	(3,947,655)
At 30 June 2019	20,896,494	20,896,494

Debt securities at FVOCI	Stage 1	Total
ECLs as at 1 January 2019	274,838	274,838
New assets originated or purchased	45,517	45,517
Assets repaid	(957)	(957)
Assets sold	(44,156)	(44,156)
Changes to models and inputs used for ECL calculations	(8,623)	(8,623)
At 30 June 2019	266,619	266,619

11. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	Equipment	Vehicles	Computers	Other fixed assets	Leasehold improvements	Total
Cost or revalued amount							
31 December 2018	5,000,021	770,184	210,615	3,674,973	917,556	1,281,230	11,854,579
Additions	69,571	32,589	17,443	224,087	60,794	14,602	419,086
Disposals and write-offs	-	(39,292)	-	(21,370)	(33,246)	-	(93,908)
30 June 2019	5,069,592	763,481	228,058	3,877,690	945,104	1,295,832	12,179,757
Accumulated depreciation							
31 December 2018	385,992	629,088	206,385	2,535,956	628,302	729,818	5,115,541
Depreciation charge	100,093	14,411	252	144,175	23,319	48,791	331,041
Disposals and write-offs	-	(39,292)	-	(21,370)	(7,283)	-	(67,945)
30 June 2019	486,085	604,207	206,637	2,658,761	644,338	778,609	5,378,637
Net book value							
31 December 2018	4,614,029	141,096	4,230	1,139,017	289,254	551,412	6,739,038
30 June 2019	4,583,507	159,274	21,421	1,218,929	300,766	517,223	6,801,120

(thousands of Armenian drams)

	<i>Land and buildings</i>	<i>Equipment</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Other fixed assets</i>	<i>Leasehold improve- ments</i>	<i>Total</i>
Cost or revalued amount							
31 December 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 and write-offs	–	(66,617)	(347)	(329,883)	(54,592)	(764)	(452,203)
31 December 2018	5,000,021	770,184	210,615	3,674,973	917,556	1,281,230	11,854,579
Accumulated depreciation							
31 December 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	35,190	94,487	601,397
Disposals and write-offs	–	(66,606)	–	(329,731)	(54,908)	(764)	(452,009)
31 December 2018	385,992	629,088	206,385	2,535,956	628,302	729,818	5,115,541
Net book value							
31 December 2017	4,724,230	91,837	4,585	692,987	165,471	436,177	6,115,287
31 December 2018	4,614,029	141,096	4,230	1,139,017	289,254	551,412	6,739,038

(thousands of Armenian drams)

11. Property and equipments (continued)

The net book value of buildings that would have been recognized under the historic cost method is AMD 827,471 thousand as of 30 June 2019 (2018: AMD 780,998 thousand).

Fully depreciated items

As of 30 June 2019 property, plant and equipment included fully depreciated assets in amount of AMD 2,207,971 thousand (2018: AMD 2,088,194 thousand).

Property, plant and equipment in the phase of installation

As of 30 June 2019 property, plant and equipment included assets in the phase of installation in amount of AMD 140,203 thousand (2018: AMD 155,545 thousand).

Restrictions on title of property, plant and equipment

As of 30 June 2019 and 31 December 2018, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

12. Intangible assets

The movements in goodwill and other intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Cost				
31 December 2018	767,915	145,365	172,708	1,085,988
Additions	53,255	–	15,480	68,735
Disposals and write-offs	–	–	–	–
30 June 2019	821,170	145,365	188,188	1,154,723
Accumulated amortization and impairment				
31 December 2018	671,969	52,216	65,472	789,657
Amortisation charge	21,847	1,595	12,723	36,165
Disposals and write-offs	–	–	–	–
30 June 2019	693,816	53,811	78,195	825,822
Net book value				
31 December 2019	95,946	93,149	107,236	296,331
30 June 2019	127,354	91,554	109,993	328,901

(thousands of Armenian drams)

	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Cost				
31 December 2017	714,891	66,816	172,834	954,541
Additions	53,024	78,549	–	131,573
Disposals and write-offs	–	–	(126)	(126)
31 December 2018	767,915	145,365	172,708	1,085,988
Accumulated amortization and impairment				
31 December 2017	633,036	44,468	50,499	728,003
Amortisation charge	38,933	7,748	15,099	61,780
Disposals and write-offs	–	–	(126)	(126)
31 December 2018	671,969	52,216	65,472	789,657
Net book value				
31 December 2017	81,855	22,348	122,335	226,538
31 December 2018	95,946	93,149	107,236	296,331

(thousands of Armenian drams)

12. Intangible assets (continued)**Fully amortized items**

As of 30 June 2019, intangible assets included fully amortized assets in amount of AMD 569,700 thousand (2018: AMD 569,700 thousand).

13. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 30 June 2019 and 31 December 2018 are shown below:

	30/06/2019	31/12/2018
Property, plant and equipment	1,856,927	1,947,843
Other assets	29,771	29,771
Total repossessed collateral	1,886,698	1,977,614

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.

14. Other assets and liabilities

Other assets comprise:

	30/06/2019	31/12/2018
Other financial assets		
Accounts receivables	289,637	280,237
Receivables from unsettled transactions	563,491	227,772
Receivables on cash transfers	9,393	51,892
Total other financial assets	862,521	559,901
Less – allowance for impairment of other financial assets	(20,887)	(25,726)
Total net other financial assets	841,634	534,175
Other non-financial assets		
Precious metals	1,553,818	945,824
Prepayments to suppliers	343,994	404,411
Other prepaid taxes	270,886	367,742
Materials	221,853	213,224
Unamortized insurance premium	11,324	56,743
Settlements with employees	5,551	7,922
Other	1,865	1,865
Total other non-financial assets	2,409,291	1,997,731
Other assets	3,250,925	2,531,906

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 30 June 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2019	15,401	66	10,259	25,726
Assets originated and repaid (net amount)	1,375	(13)	(2)	1,360
Transfers to Stage 1	28	(27)	(1)	-
Transfers to Stage 2	(26)	26	-	-
Transfers to Stage 3	-	(45)	45	-
Recoveries	-	-	8,564	8,564
Amounts written off	-	-	(11,950)	(11,950)
Impact on period end ECL of exposures transferred between stages during the period	(433)	139	(2,519)	(2,813)
At 30 June 2019	16,345	146	4,396	20,887

Other liabilities comprise:

	30/06/2019	31/12/2018
Other financial liabilities		
Due to personnel	973,205	727,471
Accounts payables	333,511	276,769
Total other financial liabilities	1,306,716	1,004,240
Other non-financial liabilities		
Tax payable, other than income tax	411,625	442,064
Dividends payable to shareholders	769,597	-
Grants related to assets	22,376	23,584
Other	8,632	12,725
Total other non-financial liabilities	1,212,230	478,373
Total other liabilities	2,518,946	1,482,613

15. Amounts due to banks

Amounts due to banks comprise:

	30/06/2019	31/12/2018
Loans from banks	1,219,280	5,862,785
Repurchase agreements with CBA	3,002,404	4,002,716
Repurchase agreements with banks	3,013,309	3,876,869
Correspondent accounts of other banks	213,009	114,833
Other liabilities	1,025,923	106,167
Total amounts due to banks	8,473,925	13,963,370

As of 30 June 2019 the Group has received loans from 2 banks (2018: also from 4 banks). The Group has repurchase agreement liabilities to 1 banks as of 30 June 2019 (2018: to 1 bank).

As of 30 June 2019 91% of correspondent accounts of other banks are concentrated within 1 counterparty (2018: 83.9% within 1 counterparty).

(thousands of Armenian drams)

16. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30/06/2019			31/12/2018		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Swaps – foreign currency	6,847,935	–	129,585	9,430,627	–	26,583
Total derivative assets/liabilities	6,847,935	–	129,585	9,430,627	–	26,583

As of 30 June 2019, the Group has positions in the following types of derivatives:

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

17. Amounts due to customers

The amounts due to customers include the following:

	30/06/2019	31/12/2018
Corporate customers		
Current/settlement accounts	46,455,067	42,974,649
Time deposits	57,102,558	58,623,562
	103,557,625	101,598,211
Retail customers		
Current/settlement accounts	25,070,005	27,693,588
Time deposits	64,179,849	57,922,317
	89,249,854	85,615,905
Amounts due to customers	192,807,479	187,214,116

As of 30 June 2019 included in amounts due to customers are deposits amounting to AMD 31,227,727 thousand (2018: AMD 30,280,617 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 30 June 2019 the aggregate balance of top ten customers of the Group amounts to AMD 75,945,372 thousand (2018: AMD 73,244,218 thousand) or 39.4% of total customer accounts (2018: 39.1%).

18. Debt securities issued

Debt securities issued consisted of the following:

	30/06/2019	31/12/2018
Domestic bonds in USD	10,515,277	9,769,113
Domestic bonds in AMD	4,671,527	4,095,754
Domestic bonds in EUR	2,735,596	2,788,577
Debt securities issued	17,922,400	16,653,444

The contractual maturity of AMD and USD bonds ranges from 2019-2022, The contractual maturity of EUR denominated bonds is in 2021. Bonds issued by the Bank are listed on Armenia Securities Exchange excluding new issues in 2019. During the second quarter of 2019 the Bank issued bonds for 1 bln AMD and for 10 mln USD, most of them have already been placed.

(thousands of Armenian drams)

19. Taxation

The corporate income tax expense comprises:

	30/06/2019	31/12/2018
Current tax charge	703,335	1,266,424
Deferred tax charge/(credit) – origination and reversal of temporary differences	91,868	44,167
Total income tax expense	795,203	1,310,591

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2018: 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:

	30/06/2019	31/12/2018
Profit before tax	3,133,589	6,205,862
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	626,718	1,241,172
Non-deductible expenses	168,485	69,419
Income tax expense	795,203	1,310,591

Deferred tax assets and liabilities as of 30 June 2019 and 31 December 2018 and their movements for the respective periods comprise:

	Balance 31 December 2017	Effect of adoption of IFRS 9	Origination and reversal of temporary differences		Balance 31 December 2018	Origination and reversal of temporary differences		Balance 30 June 2019
			In the statement of profit or loss	In other compre- hensive income		In the statement of profit or loss	In other compre- hensive income	
Other liabilities	111,835	–	24,042	–	135,877	–	–	135,877
Reposessed assets	50,825	–	7,174	–	57,999	–	–	57,999
Loans and advances to customers	(604,119)	147,858	(113,463)	–	(569,724)	(110,944)	–	(680,668)
Investment securities at FVOCI	(539,122)	–	1,875	152,483	(384,764)	(1,644)	250,433	(135,975)
Property, plant and equipment	(223,303)	–	41,989	–	(181,314)	15,398	–	(165,916)
Other impairment and provisions	(4,083)	16,356	(3,859)	–	8,414	5,322	–	13,736
Amounts due to customers	(2,796)	–	(1,925)	–	(4,721)	–	–	(4,721)
Net deferred tax liabilities	(1,210,763)	164,214	(44,167)	152,483	(938,233)	(91,868)	250,433	(779,667)

20. Other borrowed funds

Other borrowed funds consisted of the following:

	30/06/2019	31/12/2018
Loans from CBA	5,900,050	5,956,021
Loans from refinancing credit organizations	10,469,159	9,380,933
Loans from international financial institution	149,001	297,376
Loans from Government of the RA	50,080	50,083
Other borrowed funds	16,568,290	15,684,413

As of 30 June 2019 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 refinancing credit organizations include loans from National Mortgage Company and Home for Youth.

(thousands of Armenian drams)

20. Other borrowed funds (continued)**Covenants**

As at 30 June 2019 and 31 December 2018 the Group was in compliance with all debt covenants.

21. Subordinated loans

Subordinated loans consisted of the following:

	30/06/2019	31/12/2018
Subordinated debt provided by related party	5,772,752	5,852,819
Subordinated loans	5,772,752	5,852,819

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 (2018: 7.12% and with contractual maturity to January 2023) (See note 35).

22. Commitments and contingencies**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.

Commitments and contingencies

As of 30 June 2019 the Group's commitments and contingencies comprised the following:

	30/06/2019	31/12/2018
Credit related commitments		
Undrawn loan commitments	12,376,169	12,491,499
Financial guarantees	4,198,342	3,677,373
Letters of credit	885,325	1,484,715
	17,459,836	17,653,587

(thousands of Armenian drams)

22. Commitments and contingencies (continued)**Commitments and contingencies (continued)**

An analysis of changes in the ECLs at 30 June 2019 is as follows:

<i>Undrawn loan commitments</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	13,783	13,783
New exposures	7,418	7,418
Expired exposures	(7,539)	(7,539)
At 30 June 2019	13,663	13,663
<i>Letters of credit</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	16,203	16,203
New exposures	81	81
Expired exposures	(6,639)	(6,639)
At 30 June 2019	9,645	9,645
<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2019	40,070	40,070
New exposures	18,444	18,444
Expired exposures	(12,752)	(12,752)
At 30 June 2019	45,762	45,762

An analysis of changes in the ECLs at 31 December 2018 is as follows:

<i>Undrawn loan commitments</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2018	28,603	28,603
New exposures	7,823	7,823
Expired exposures	(22,500)	(22,500)
Foreign exchange adjustments	(143)	(143)
At 31 December 2018	13,783	13,783
<i>Letters of credit</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2018	680	680
New exposures	16,203	16,203
Expired exposures	(680)	(680)
At 31 December 2018	16,203	16,203
<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Total</i>
ECLs as at 1 January 2018	38,450	38,450
New exposures	24,178	24,178
Expired exposures	(22,194)	(22,194)
Foreign exchange adjustments	(364)	(364)
At 31 December 2018	40,070	40,070

(thousands of Armenian drams)

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 30 June 2019 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.

23. Equity

As of 30 June 2019 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2018: 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 (2018: 54,722 ordinary shares and 333 privileged shares).

The respective shareholdings as at 30 June 2019 and 31 December 2018 may be specified as follows:

	30/06/2019		31/12/2018	
	<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 B.V. Company	2,307,900	14.06	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	820,800	5.00
	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.

(thousands of Armenian drams)

23. Equity (continued)

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 19 June 2019 dividends declared and paid by the Bank amounted to AMD 850,375 thousand (2018: declared and paid AMD 570,343 thousand) for ordinary shares and 6.6 thousand (2018: AMD 6.6 thousand) to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 15,540 (2017: AMD 10,423), and dividends per preference share amounted to AMD 19.8 (2018: 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.

24. Net interest income

Net interest income comprises:

	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Financial assets measured at amortized cost				
Loans to customers	5,379,067	10,597,402	4,397,686	8,659,187
Amounts due from banks	3,045	8,365	38,348	87,841
Investment securities	24,475	54,196	21,607	35,307
Cash equivalents	6,572	12,268	2,493	5,455
Other interest income	1,971	4,319	1,593	2,902
Financial assets measured at fair value through other comprehensive income				
Debt securities at FVOCI	465,509	970,017	591,527	1,102,084
Interest revenue calculated using effective interest rate	5,880,639	11,646,567	5,053,254	9,892,776
Trading securities	22,780	43,134	23,359	41,472
Finance leases	805	2,210	1,843	3,834
Other interest revenue	23,585	45,344	25,202	45,306
Total interest revenue	5,904,224	11,691,911	5,078,456	9,938,082
Amounts due to customers	1,644,866	3,250,804	1,539,954	3,068,278
Other borrowed funds	588,897	1,140,647	523,008	1,020,958
Debt securities issued	267,430	520,147	171,263	262,619
Subordinated loans	102,952	204,694	103,263	203,805
Amounts due to banks	106,682	233,341	22,464	53,034
Interest expense	2,710,827	5,349,633	2,359,952	4,608,694
Net interest income	3,193,397	6,342,278	2,718,504	5,329,388

(thousands of Armenian drams)

25. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss at 30 June 2019:

	<i>Note</i>	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Cash and cash equivalents	6	134	1,659	745	(1,205)
Amounts due from banks	8	(1,080)	(6,630)	(6,903)	(5,433)
Loans and advances to customers	9	614,050	640,125	238,684	612,034
Debt securities measured at amortised cost	10	(5,121)	(5,067)	(6,666)	(1,866)
Other financial assets	14	(6,545)	(1,453)	28,239	8,970
Off-balance items	22	(5,327)	(987)		15,044
Total credit loss expense		596,111	627,647	267,225	627,544

26. Net fee and commission income

Net fee and commission income comprises:

	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Plastic cards operations	314,276	585,836	248,695	475,535
Wire transfer fees	185,715	332,607	172,834	329,954
Settlement operation	60,362	114,198	57,420	114,771
Fees and commission income from loans	75,761	158,656	69,203	138,834
Guarantees and letters of credit	14,607	27,834	12,161	23,543
Other	79,537	159,401	65,460	117,640
Fee and commission income	730,258	1,378,532	625,773	1,200,277
Plastic cards operations	164,715	310,049	138,924	278,496
Wire transfer fees	43,554	83,947	26,580	52,817
Settlement operations	14,128	31,624	15,685	48,214
Guarantees and letters of credit	1,416	3,358	2,244	2,598
Other expenses	15,269	29,226	10,369	20,367
Fee and commission expense	239,082	458,204	193,802	402,492
Net fee and commission income	491,176	920,328	431,971	797,785

27. Net trading income

	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Net gains from foreign currency transactions	319,626	602,415	348,200	613,691
Net gain/(loss) on derivative financial instruments	(129,984)	(138,379)	144,479	201,314
Net gain from trading securities	28,685	19,619	(531)	16,826
Total net trading income	218,327	483,655	492,148	831,831

(thousands of Armenian drams)

28. Other income

	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Fines and penalties received	130,770	217,283	191,138	305,389
Income from cash collection services	10,134	19,806	10,565	19,701
Net income from operations with precious metals	98,962	136,927	(25,829)	(8,872)
Dividend income	1,169	2,829	1,482	1,482
Income from grants	606	1,212	606	1,212
Other income	94,281	127,207	54,253	85,254
Total other income	335,922	505,264	232,215	404,166

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	01/04/19- 30/06/19	01/01/19- 30/06/19	01/04/18- 30/06/18	01/01/18- 30/06/18
Salaries	1,284,411	2,591,699	1,171,090	2,279,191
Other expenses	21,485	44,156	24,760	57,374
Personnel expenses	1,305,896	2,635,855	1,195,850	2,336,565
Advertising costs	128,796	243,679	113,841	232,357
Operating lease	146,506	295,841	138,512	273,867
Insurance of deposits	61,685	116,669	45,773	103,154
Expenses related to Armenian Card payment system	49,731	102,159	44,552	87,194
Security	52,534	101,282	51,876	103,390
Software maintenance expenses	55,659	110,328	48,199	96,266
Fixed assets maintenance	35,716	65,363	26,486	52,857
Communications	34,866	67,566	27,050	57,118
Consulting and other service	25,108	49,615	26,413	51,853
Insurance expenses	27,430	58,301	23,916	51,652
Utility expenses	19,377	55,133	17,044	49,655
Taxes, other than income tax, duties	52,536	66,651	6,727	9,478
Business trip expenses	14,454	20,113	6,956	19,111
Office supplies	7,910	22,178	8,746	14,395
Financial system mediator	7,013	14,025	6,272	12,543
Penalties paid	909	1,224	1	403
Other operating expenses	41,676	80,783	31,518	66,742
Other expenses	166,572	288,818	119,075	209,006
Other operating expenses	928,478	1,759,728	742,957	1,491,041

30. Risk management**Introduction**

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

(thousands of Armenian drams)

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.

(thousands of Armenian drams)

30. Risk management (continued)

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 fulfil 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, 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 Group using the rating of international rating agencies (Moody's, S&P, 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.

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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 for 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.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

Impairment assessment

From 1 January 2018, the Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR at origination. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive considering the possible credit risk. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 91 days past due on its contractual payments.

A financial instrument is also considered as credit-impaired based on predefined other quantitative and qualitative factors, such as the quality of credits due to affiliated parties, the state of being rescheduled which are approved by the management.

PD estimation process

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risks management division analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Loans customers

Bucketing

For stage 1 and stage 2 loans to customers, as well as for individually not significant stage 3 exposures, the Group calculates ECL on portfolio level. The following portfolios are segregated by the Group.

- ▶ Business loans;
- ▶ Consumer loans;
- ▶ Mortgage loans;
- ▶ Gold loans

PDs for loans to customers are based on historic information and calculated through probability transition matrices, based on historical information on ageing of the loan portfolios. The probabilities are calculated as the share of loans transferring to defaulted category during 12-month period from the total number of credits at the beginning of the period. In calculation of PDs the Group considers forward looking macroeconomic parameters that had significant impact on the probability of default estimated through time series regression analysis. The forecasts of PDs are evaluated based on the officially available forward looking macroeconomic parameters.

Based on the estimated deviation of the historical forecasts of the selected macroeconomic parameters from the actual trends three scenarios of the forward looking macroeconomic development are directed to the final outcome of three PD PIT transition matrices, which are weighted by 10%, 80% and 10% probabilities corresponding to the best, base and worst case scenarios.

Exposure at default

The exposure at default (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. To calculate the EAD for a 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.

(thousands of Armenian drams)

30. Risk management (continued)**Credit risk (continued)****Loss given default**

The Group uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. All cash flow information is collected after the default date per LGD bucket. For the recently defaulted loans the possible recoveries are evaluated based on the development factor estimated from the population of the earlier defaulted loans. Any changes in the collection policy are considered in this scope. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD bucket. Cash flow information includes all kind of cash received from defaulted loans (cash received from repayment of loans, cash received from guarantor, cash received from sale of collateral, etc.).

Significant increase in credit risk

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The objective criterion used by the Group is the information on overdue days of the loans. The Group concludes that there is a significant increase in credit risk of the assets, when payments related to that assets of the borrower are past due for more than 30 days.

- ▶ The Bank's management also considers the following factors to determine whether there is an increase in credit risk:
- ▶ Overdue days of the borrower in other financial institutions in Armenia;
- ▶ Overdue days of the predefined affiliated parties.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP annual growth;
- ▶ USD/AMD exchange rate
- ▶ Central Bank base rate growth
- ▶ Unemployment rate

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios.

30. Risk management (continued)**Credit risk (continued)****Credit quality per class of financial assets**

The credit quality of financial assets is managed by the Group internal credit ratings, as described above.

The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

30/06/19	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	478,576	35,726,787	–	–	36,205,363
Amounts due from banks	8	Stage 1	401,755	1,459,191	–	–	1,860,946
Loans and advances to customers	9						
- Business loans		Stage 1	22,241,109	76,920,400			99,161,509
		Stage 2			2,910,896		2,910,896
		Stage 3				4,452,299	4,452,299
- Consumer loans		Stage 1	1,128,291	37,379,922			38,508,213
		Stage 2			1,037,179		1,037,179

(thousands of Armenian drams)

		Stage 3			1,244,360	1,244,360
- Mortgage loans		Stage 1	36,634,825			36,634,825
		Stage 2		234,273		234,273
		Stage 3			1,612,113	1,612,113
- Gold loans		Stage 1	19,958,319			19,958,319
		Stage 2		431,165		431,165
		Stage 3			192,124	192,124
Debt investment securities	10					
- Measured at FVOCI		Stage 1	-	20,959,621	-	20,959,621
- Measured at amortised cost		Stage 1	-	1,295,518	-	1,295,518
Undrawn loan commitments	22	Stage 1	-	12,376,169	-	12,376,169
Letters of credit	22	Stage 1	-	885,325	-	885,325
Financial guarantees	22	Stage 1	-	4,198,342	-	4,198,342
Total			24,249,731	247,794,419	4,613,513	7,500,897
						284,158,560

In the table below loans to customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises not past due loans below standard grade but not individually impaired.

31/12/2018	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	525,624	31,219,145	-	-	31,744,769
Amounts due from banks	8	Stage 1	412,665	4,812,477	-	-	5,225,142
Loans and advances to customers	9						
- Business loans		Stage 1	18,171,946	87,639,720	-	-	105,811,666
		Stage 2	-	-	80,998	-	80,998
		Stage 3	-	-	-	5,067,237	5,067,237
- Consumer loans		Stage 1	1,390,733	32,337,823	-	-	33,728,556
		Stage 2	-	-	492,078	-	492,078
		Stage 3	-	-	-	1,300,312	1,300,312
- Mortgage loans		Stage 1	-	33,078,668	-	-	33,078,668
		Stage 2	-	-	120,961	-	120,961
		Stage 3	-	-	-	1,831,101	1,831,101
- Gold loans		Stage 1	-	18,667,522	-	-	18,667,522
		Stage 2	-	-	259,286	-	259,286
		Stage 3	-	-	-	243,342	243,342
Debt investment securities	10						
- Measured at FVOCI		Stage 1	-	22,702,608	-	-	22,702,608
- Measured at amortised cost		Stage 1	-	2,671,339	-	-	2,671,339
Undrawn loan commitments	22	Stage 1	-	12,491,499	-	-	12,491,499
Letters of credit	22	Stage 1	-	1,484,715	-	-	1,484,715
Financial guarantees	22	Stage 1	-	3,677,373	-	-	3,677,373
Total			20,500,968	250,782,889	953,323	8,441,992	280,679,172

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is

(thousands of Armenian drams)

calculated in similar manner as for loans.

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 30 June 2019 and 31 December 2018.

	<i>30 June 2019</i>			
	<i>Armenia</i>	<i>Other non- OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	44,174,477	1,519,906	674,073	46,368,456
Trading securities	853,371	-	-	853,371
Amounts due from banks	1,084,089	190,892	579,940	1,854,921
Loans and advances to customers	181,673,031	20,508,139	43,104	202,224,274
Investment securities	14,584,798	827,945	5,333	15,418,076
Securities pledged under repurchase agreements	6,832,307	-	-	6,832,307
Other financial assets	639,228	9,679	192,727	841,634
	249,841,300	23,056,562	1,495,177	274,393,039

	<i>31/12/2018</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
Trading securities	1,160,345	-	-	1,160,345
Amounts due from banks	3,359,131	1,006,353	847,003	5,212,487
Loans and advances to customers	182,424,202	13,844,200	13,930	196,282,332
Investment securities	16,523,883	806,022	1,026,549	18,356,454
Securities pledged under repurchase agreements	8,092,013	-	-	8,092,013
Other financial assets	302,505	4,923	226,747	534,175
	249,806,761	17,989,073	2,312,830	270,108,664

30. Risk management (continued)

Liquidity risk and funding management

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 Group denominated in Armenian drams and 16% on certain obligations of the Group denominated in foreign currency in Armenian drams and and 2% on certain obligations of the Group denominated in foreign currency. 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 Group.

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 Group calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia. As at 30 June, these ratios were as follows:

	<i>Threshold</i>	<i>30.06.2019 %</i>	<i>2018, %</i>
N21 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	23.69	35.26

(thousands of Armenian drams)

N22 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	81.83	102.49
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Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 30 June 2019 based on contractual undiscounted repayment obligations. See Note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the 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.

30/06/2019						
	<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	7,185,968	970,934	254,430	0	71,567	8,482,898
Derivative liabilities	129,585					129,585
Amounts due to customers	78,571,091	19,060,430	57,475,860	43,163,294	1,304,135	199,574,809
Other borrowed funds	192,441	197,756	2,097,375	11,452,558	7,620,828	21,560,957
Debt securities issued	0	1,052,470	2,876,448	15,897,349	0	19,826,267
Subordinated debt	0	0	392,244	6,805,418	0	7,197,663
Total undiscounted financial liabilities	86,079,084	21,281,589	63,096,357	77,318,619	8,996,529	256,772,179
Commitments and contingent liabilities	12,441,052	1,048,183	502,405	3,314,308	153,888	17,459,836
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	12,493,396	1,287,043	127,441	–	72,563	13,980,443
Derivative liabilities	26,583	–	–	–	–	26,583
Amounts due to customers	77,767,987	16,269,442	77,640,309	24,265,421	819,953	196,763,112
Other borrowed funds	141,098	377,393	1,825,741	11,756,654	6,361,484	20,462,370
Debt securities issued	–	52,500	6,724,733	11,580,313	–	18,357,546
Subordinated debt	–	–	395,709	7,105,036	–	7,500,745
Total undiscounted financial liabilities	90,429,064	17,986,378	86,713,933	54,707,424	7,254,000	257,090,799
Commitments and contingent liabilities	17,653,587	–	–	–	–	17,653,587

(thousands of Armenian drams)

30. Risk management (continued)**Liquidity risk and funding management (continued)**

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.

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 Group classifies exposures to market risk into either trading or non-trading portfolios. 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 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 consolidated statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities and on net trading income, based on trading instruments held at 30 June. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets (before 1 January 2018) and debt financial assets measured at FVOCI (after 1 January 2018) at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of equity 2019
AMD	1.00%	(44,962)	(354,043)
USD	1.60%	(42)	(148,839)
EUR	0.20%	–	(1,212)

Currency	Decrease in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of equity 2019
AMD	3.50%	157,365	1,239,150
USD	0.50%	13	46,512
EUR	0.01%	–	61

Currency	Increase in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of equity 2018
AMD	1.00%	(25,250)	(415,856)
USD	1.60%	(5,795)	(190,402)
EUR	0.20%	–	(1,475)

Currency	Decrease in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of equity 2018
AMD	3.50%	88,376	1,455,495
USD	0.50%	1,811	59,501
EUR	0.01%	–	74

(thousands of Armenian drams)

30. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management has set limits on positions by currency.

The tables below indicate the currencies to which the Group had significant exposure at 30 June on its non-trading monetary assets and liabilities. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant, on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	30 June 2019		31 December 2018	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
USD	3.5%	21,584	3.5%	12,064
USD	(3.5%)	21,584	(3.5%)	(12,064)
EUR	8.0%	(5,880)	8.0%	(4,847)
EUR	(8.3%)	6,101	(8.3%)	5,028

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 loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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 Group'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 compliance 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.

(thousands of Armenian drams)

31. Fair value measurements**Fair value measurement procedures**

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

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

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the 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 valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities measured at fair value in the 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.

	30/06/2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Loans and advances to customers	–	–	183,959,998	183,959,998	202,224,274
Cash and cash equivalents	46,368,456	–	–	46,368,456	46,368,456
Amounts due from banks	–	–	1,854,921	1,854,921	1,854,921
Investment securities at amortised cost	–	–	239,887	239,887	239,992
Investment securities at amortised cost pledged under repurchase agreements	–	–	1,055,833	1,055,833	1,050,770
Other financial assets	–	–	841,634	841,634	841,634
Financial liabilities					
Amounts due to customers	–	–	192,807,479	192,807,479	192,807,479
Other borrowed funds	–	–	16,568,290	16,568,290	16,568,290
Amounts due to banks	–	–	8,473,925	8,473,925	8,473,925
Debt securities issued	–	17,872,338	–	17,872,338	17,922,400
Subordinated debt	–	–	5,772,752	5,772,752	5,772,752
Other financial liabilities	–	–	1,306,716	1,306,716	1,306,716

(thousands of Armenian drams)

31. Fair value measurements (continued)**Fair value measurement procedures (continued)**

	2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Loans and advances to customers	–	–	177,980,279	177,980,279	196,282,332
Cash and cash equivalents	40,470,858	–	–	40,470,858	40,470,858
Amounts due from banks	–	–	5,212,033	5,212,033	5,212,487
Investment securities at amortised cost	–	–	584,089	584,089	584,058
Investment securities at amortised cost pledged under repurchase agreements	–	–	2,184,418	2,184,418	2,077,458
Other financial assets	–	–	534,175	534,175	534,175
Financial liabilities					
Amounts due to customers	–	–	187,214,116	187,214,116	187,214,116
Other borrowed funds	–	–	15,684,413	15,684,413	15,684,413
Amounts due to banks	–	–	13,963,370	13,963,370	13,963,370
Debt securities issued	–	16,647,928	–	16,647,928	16,653,444
Subordinated debt	–	–	5,852,819	5,852,819	5,852,819
Other financial liabilities	–	–	1,004,291	1,004,291	1,004,240

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 (2018: 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 valuers.

Financial instruments that are measured at fair value

	30/06/2019		
	Level 1	Level 2	Total
Financial assets			
Trading securities	–	853,371	853,371
Investment securities at FVOCI	5,333	15,172,751	15,178,084
Investment securities at FVOCI pledged under repurchase agreements	–	5,781,537	5,781,537
Total	5,333	21,807,659	21,812,992
Financial liabilities			
Derivative financial liabilities	–	129,585	129,585
Total	–	129,585	129,585
Net fair value	5,333	21,678,074	21,683,407

(thousands of Armenian drams)

	2018		
	Level 1	Level 2	Total
Financial assets			
Trading securities	–	1,160,345	1,160,345
Investment securities at FVOCI	1,021,216	16,751,180	17,772,396
Investment securities at FVOCI pledged under repurchase agreements	–	6,014,555	6,014,555
Total	1,021,216	23,926,080	24,947,296
Financial liabilities			
Derivative financial liabilities	–	26,583	26,583
Total	–	26,583	26,583
Net fair value	1,021,216	23,952,663	24,973,879

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

(thousands of Armenian drams)

31. Fair value measurements (continued)**Fair value measurement of non-financial assets and liabilities**

	<i>30.06.2019</i>	
	<i>Level 3</i>	<i>Total</i>
Non financial assets		
Land and buildings	4,583,507	4,583,507
Total	4,583,507	4,583,507

	<i>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

Fair value measurements in Level 3

The Group's non financial assets 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>Non financial assets</i>	<i>Land and buildings</i>	<i>Total</i>
Balance as at 1 January 2019	4,614,029	4,614,029
Purchases	69,571	69,571
Disposals	–	–
Depreciation charge	(100,093)	(100,093)
Net fair value at 30 June 2019	4,583,507	4,583,507

<i>Non financial assets</i>	<i>Land and buildings</i>	<i>Total</i>
Balance as at 1 January 2018	4,724,230	4,724,230
Purchases	83,003	83,003
Disposals	–	–
Depreciation charge	(193,204)	(193,204)
Net fair value at 31 December 2018	4,614,029	4,614,029

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 premise in question, including plot size, location, encumbrances and current use.

There was no revaluation of the land and buildings during 2019. The land and buildings were previously revalued on 31 December 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.

(thousands of Armenian drams)

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

Transferred financial assets that are not derecognised in their entirety

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 derecognised them. In addition, it recognised a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group, which instead records a separate asset for any cash given.

As at 30 June 2019 the Group has securities sold under repurchase agreements amounted to AMD 6,832,307 Thousand which were classified as measured at FVOCI and amortised cost (2018: AMD 8,092,013 thousand classified as available-for-sale investments).

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the consolidated statement of financial position as at 30 June 2019 as amounts due to banks with carrying amount of AMD 6,015,713 thousand, (2018: AMD 7,879,585 thousand).

33. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated 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 consolidated statement of financial position:

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets recognised in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Non-cash collateral received	
2019						
Financial assets						
Loans and advances to customers – reverse repo	5,782,227	–	5,782,227	–	(5,782,227)	–
Total	5,782,227	–	5,782,227	–	(5,782,227)	–
Financial liabilities						
Amounts due to banks – repo	6,015,713	–	6,015,713	(6,015,713)	–	–
Total	6,015,713	–	6,015,713	(6,015,713)	–	–
2018						
Financial assets						
Loans and advances to customers – reverse repo	4,022,197	–	4,022,197	–	(4,022,197)	–
Total	4,022,197	–	4,022,197	–	(4,022,197)	–
Financial liabilities						
Amounts due to banks – repo	7,879,585	–	7,879,585	(7,879,585)	–	–
Total	7,879,585	–	7,879,585	(7,879,585)	–	–

(thousands of Armenian drams)

34. 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 30 for the Group's contractual undiscounted repayment obligations.

	30/06/2019			31/12/2018		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Assets						
Cash and cash equivalents	46,368,456	-	46,368,456	40,470,858	-	40,470,858
Trading securities	10,918	842,453	853,371	7,125	1,153,220	1,160,345
Amounts due from banks	707,936	1,146,985	1,854,921	4,110,562	1,101,925	5,212,487
Loans and advances to customers	65,364,893	136,859,381	202,224,274	59,315,748	136,966,584	196,282,332
Investment securities	2,651,142	13,817,705	16,468,847	2,137,102	16,219,352	18,356,454
Securities pledged under repurchase agreements	5,781,537	-	5,781,537	8,092,013	-	8,092,013
Property, plant and equipment	-	6,801,120	6,801,120	-	6,739,038	6,739,038
Intangible assets	-	328,901	328,901	-	296,331	296,331
Repossessed assets	1,886,698	-	1,886,698	1,977,614	-	1,977,614
Other assets	3,225,265	25,660	3,250,924	2,504,264	27,642	2,531,906
Total	125,996,844	159,822,205	285,819,049	118,615,286	162,504,092	281,119,378
Liabilities						
Amounts due to banks	8,402,358	71,567	8,473,925	13,890,807	72,563	13,963,370
Derivative liabilities	129,585	0	129,585	26,583	-	26,583
Amounts due to customers	153,622,849	39,184,630	192,807,479	164,802,436	22,411,680	187,214,116
Other borrowed funds	1,511,910	15,056,381	16,568,290	1,404,832	14,279,581	15,684,413
Debt securities issued	3,144,561	14,777,839	17,922,400	6,047,694	10,605,750	16,653,444
Current income tax liabilities	117,658	0	117,658	199,430	-	199,430
Deferred income tax liabilities	0	779,667	779,667	-	938,233	938,233
Other liabilities	2,496,566	22,376	2,518,942	1,459,076	23,537	1,482,613
Other provisions	69,070	0	69,070	70,056	-	70,056
Subordinated debt	-279	5,773,031	5,772,752	-	5,852,819	5,852,819
Total	169,494,279	75,593,924	245,159,769	187,900,914	54,184,163	242,085,077
Net position	(43,497,434)	84,156,714	40,659,280	(69,285,628)	108,319,929	39,034,301

The maturity analysis in the table above does not reflect the historical behavior and actual repayment pattern of term deposits. 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.

The table below shows an analysis of assets and liabilities analysed according securities instant liquidity as at 30 June 2019.

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

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 at amortised cost state securities are classified as demand and less than 1 month considering the availability of repo agreements.

	30 June 2019								Total
	<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>	
Cash and cash equivalents	46,368,456	-	-	46,368,456	-	-	-	-	46,368,456
Trading securities	606,404	10	-	606,414	1,964	244,993	246,957	-	853,371
Amounts due from banks	707,936	-	-	707,936	-	-	-	1,146,985	1,854,921
Loans and advances to customers	9,301,086	10,629,857	45,433,949	65,364,893	85,642,393	51,216,988	136,859,381	-	202,224,274
Investment securities	13,452,600	27,669	4,499	13,484,768	2,920,951	-	2,920,951	63,127	16,468,845
Securities pledged under repurchase agreements	5,781,537	-	-	5,781,537	-	-	-	-	5,781,537
Property, plant and equipment	-	-	-	-	-	-	-	6,801,120	6,801,120
Intangible assets	-	-	-	-	-	-	-	328,901	328,901
Repossessed assets	-	-	1,886,698	1,886,698	-	-	-	-	1,886,698
Other assets	3,132,819	22,510	69,936	3,225,265	27	25,633	25,660	-	3,250,924
Total assets	79,350,838	10,680,046	47,395,082	137,425,967	88,565,334	51,487,614	140,052,948	8,340,133	285,819,048
Liabilities									
Amounts due to banks	7,183,078	965,718	253,562	8,402,358	-	-	-	71,567	8,473,925
Derivative financial liabilities	129,585	-	-	129,585	-	-	-	-	129,585
Amounts due to customers	78,570,850	19,057,588	55,994,411	153,622,849	38,897,323	287,307	39,184,630	-	192,807,479
Other borrowed funds	174,005	95,309	1,242,596	1,511,910	8,435,317	6,621,063	15,056,381	-	16,568,290
Debt securities issued	-	1,042,575	2,101,986	3,144,561	14,777,839	-	14,777,839	-	17,922,400
Income tax liabilities	-	-	117,658	117,658	-	-	-	-	117,658
Deferred tax liabilities	-	-	-	-	779,667	-	779,667	-	779,667
Other liabilities	331,953	161,392	2,003,221	2,496,566	-	22,376	22,376	-	2,518,942
Other provisions	69,070	-	-	69,070	-	-	-	-	69,070
Subordinated debt	-	-	(279)	(279)	5,773,031	-	5,773,031	-	5,772,752
Total liabilities	86,458,541	21,322,582	61,713,155	169,494,279	68,663,178	6,930,746	75,593,924	71,567	245,159,769
Net position	(7,107,703)	(10,642,536)	(14,318,073)	(32,068,312)	19,902,157	44,556,868	72,727,590	8,268,566	40,659,279
Accumulated gap	(7,107,703)	(17,750,239)	(24,960,609)		5,584,084	72,727,590			

35. Related party disclosures

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 the Parent, entities under common control, 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.

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:

(thousands of Armenian drams)

35. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

The income and expense arising from related party transactions are as follows:

	30/06/19			31/12/18		
	Parent	Entities under common control	Key management personnel and their close family members	Parent	Entities under common control	Key management personnel and their close family members
Consolidated statement of financial position						
Loans and advances to customers						
Loans outstanding at 1 January, gross	7,263	21,618,927	594,758	19,037	27,463,688	395,002
Loans issued during the year	93,888	10,604,952	318,664	130,714	23,934,804	848,528
Loan repayments during the year	(71,685)	(3,902,603)	(367,333)	(142,415)	(29,561,192)	(642,764)
Loans outstanding at 30 June, gross	29,466	28,321,276	546,089	7,336	21,837,300	600,766
Less: allowance for loan impairment	(295)	(283,213)	(5,461)	(73)	(218,373)	(6,008)
Loans outstanding as of 30 June, net	29,171	28,038,063	540,628	7,263	21,618,927	594,758
Amounts due to customers						
Deposits at 1 January	213,839	46,019,356	564,144	367,619	37,441,903	409,070
Deposits received during the year	177,530	298,693,661	1,549,945	1,137,797	611,888,652	3,689,233
Deposits repaid during the year	(283,899)	(295,163,596)	(1,779,200)	(1,291,577)	(603,311,199)	(3,534,159)
Deposits as of 30 June	107,470	49,549,421	334,889	213,839	46,019,356	564,144
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	-	5,852,818	-	-	5,854,396	-
Subordinated debt repaid during the year	-	-	-	-	(5,498)	-
Net result from FX revaluation	-	(162,930)	-	-	3,920	-
Subordinated debt as of 30 June	-	82,866	-	-	5,852,818	-
Items not recognised in the consolidated statement of financial position						
Guarantees given	-	187,910	44,160	-	190,815	124,683
Consolidated statement of comprehensive income						
Interest income	-	1,028,789	17,449	-	1,479,467	30,627
Fee and commission income	33	15,602	359	770	26,092	779
Other income	37	58,433	406	1,384	47,280	1,198
Interest expense	(1,236)	(1,113,406)	(8,235)	(4,207)	(1,984,209)	(16,051)
Impairment charge	(221)	(64,840)	547	117	56,264	(2,058)
Other expenses	-	(21,742)	(16,316)	-	(45,563)	(29,886)

Compensation of key management personnel was comprised of the following:

	30/06/2019	30/06/2018
Salaries and other short-term benefits	280,193	209,026
Total key management personnel compensation	280,193	209,026

(thousands of Armenian drams)

36. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

Subsidiary	Ownership/ voting, %	Principal place of business	Country of incorporation	Nature of activities
2019				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset
Subsidiary	Ownership/ voting, %	Principal place of business	Country of incorporation	Nature of activities
2018				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset

37. 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 Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 30 June 2019 and 31 December 2018, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 30 June 2019 and 31 December 2018.

(thousands of Armenian drams)

38. Capital adequacy (continued)

The following table shows the composition of capital position calculated in accordance with requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, as at 30 June 2019 and December 31 2018:

	<i>30/06/2019</i>	<i>2018</i>
Tier 1 capital	31,740,843	28,581,161
Tier 2 capital	7,017,844	9,741,937
Total capital	38,758,687	38,323,098
Risk-weighted assets	267,459,710	262,166,531
Capital adequacy ratio	14.49%	14.34%

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 Group has complied with externally imposed capital requirements through the period.