Ameriabank CJSC

Financial statements

for the year ended 31 December 2018
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of
Ameriabank Closed Joint-Stock Company

Opinion

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

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

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed it
Allowance for impairment for expected credit loss on loans and advances to customers	
Allowance for impairment for expected credit loss ("ECL") on loans and advances to customer is a key audit matter due to both the significance of loans and advances to customers (70.3% of total assets of the Bank as at 31 December 2018) and the complexity and judgments related to the estimation of ECL under newly adopted IFRS 9 Financial instruments ("IFRS 9"). The calculation of ECL on portfolio basis involves estimation techniques that use complex statistical modelling and expert judgment. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data, which is adjusted for forward looking information, including forecast of macroeconomic parameters. The calculation of ECL for significant credit-impaired financial assets on an individual basis requires assessment of estimated future cash flows from the realization of underlying collaterall. The use of different modelling techniques and assumptions could produce significantly different estimates of ECL. This could have material effect on the financial results of the Bank. Information on the allowance for ECL on loans and advances to customers is included in Note 20 *Loans and advances to customers* and Note 31 *Risk management*.	We focused our audit on the following: ▸ Evaluation of credit risk models and assumptions used to determine ECL on portfolio basis; ▸ Testing of estimated future cash flows for significant credit-impaired loans and advances to customers. To test allowance calculated on a portfolio basis, we evaluated underlying statistical models, key inputs and assumptions used and forward looking information incorporated in the calculation of ECL. We tested key statistical data underlying credit risk factors calculation, such as overdue days of loans, statistics of recoveries of loans and advances to customers after default date and change in their exposure from initial recognition date to default date. For significant credit-impaired exposures, we tested calculation of estimated future cash flows from realization of underlying collateral. We also performed procedures regarding the financial statement disclosures of the Bank's exposure to credit risk.

Other information included in the Bank's 2018 Annual report

Other information consists of the information included in the Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Board of Directors for the financial statements

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Sergei Taskaev.

CJSC Ernst & Young
Yerevan, Armenia

Partner (Assurance) Sergei Taskaev

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August 2016)
Partner (Assurance) Eric Hayrapetyan

27 March 2019

Statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 AMD'000	2017 AMD'000
Interest revenue calculated using effective interest rate	5	53,047,105	49,110,163
Other interest revenue		593,061	187,035
Interest expense	5	(26,309,095)	(30,932,889)
Net interest income		**27,331,071**	**18,364,309**
Fee and commission income	6	4,511,230	3,577,025
Fee and commission expense	7	(1,111,594)	(791,890)
Net fee and commission income		**3,399,636**	**2,785,135**
Net gain/(loss) on financial instruments at fair value through profit or loss	8	995,577	(1,976,234)
Net foreign exchange gain	9	3,134,059	5,815,335
Net gain on financial assets measured at fair value through other comprehensive income		155,365	-
Net gain on available-for-sale financial assets		-	424,708
Other operating income	10	4,242,231	2,159,541
Other operating expenses	11	(2,475,641)	(1,892,480)
Operating income		**36,782,298**	**25,680,314**
Credit loss expense	12	(9,380,965)	(5,688,706)
Other impairments	12	(22,749)	(122,938)
Operating income after impairment		**27,378,584**	**19,868,670**
Personnel expenses		(7,936,402)	(6,240,813)
Other general administrative expenses	13	(6,118,214)	(4,091,161)
Profit before income tax		**13,323,968**	**9,536,696**
Income tax expense	14	(2,821,524)	(1,886,709)
Profit for the year		**10,502,444**	**7,649,987**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Net gains/(losses) on available-for-sale financial assets			
- Net change in fair value		-	462,604
- Net change in fair value transferred to profit or loss		-	(424,708)
- Income tax effect		-	(7,579)
Net gains/(losses) on debt financial instruments at fair value through other comprehensive income			
- Net change in fair value		4,932	-
- Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		72,517	-
- Net change in fair value transferred to profit or loss		(155,365)	-
- Income tax effect		15,583	-
Total items that are or may be reclassified subsequently to profit or loss		**(62,333)**	**30,317**
Other comprehensive (loss)/income for the year, net of income tax		**(62,333)**	**30,317**
Total comprehensive income for the year		**10,440,111**	**7,680,304**

The financial statements as set out on pages 1 to 72 were approved by the Management Board on 27 March 2019 and were signed on its behalf by:

Artak Hanesyan
Chairman of the Management Board-General Director

Gohar Khachatryan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the Notes to, and forming part of, the financial statements.

Statement of financial position

as at 31 December 2018

	Notes	2018 AMD'000	2017 AMD'000
Assets			
Cash and cash equivalents	15	144,353,912	107,616,368
Financial instruments at fair value through profit or loss	16		
- Held by the Bank		6,290,841	3,968,064
- Pledged under sale and repurchase agreements		526,169	–
Financial assets at fair value through other comprehensive income	17	11,602,128	–
Available-for-sale financial assets	17	–	9,888,078
Loans and advances to banks	18	4,946,612	10,842,890
Amounts receivable under reverse repurchase agreements	19	6,746,414	8,675,394
Loans and advances to customers	20	547,943,183	479,640,981
Debt securities at amortized cost	21		
- Held by the Bank		22,269,117	–
- Pledged under sale and repurchase agreements		16,556,346	–
Held-to-maturity investments	21		
- Held by the Bank		–	37,337,539
- Pledged under sale and repurchase agreements		–	5,968,305
Property, equipment and intangible assets	22	10,240,337	7,126,916
Deferred tax asset	14	185,898	–
Other assets	23	8,086,270	6,657,562
Total assets		**779,747,227**	**677,722,097**
Liabilities			
Financial instruments at fair value through profit or loss	16	20,621	686,306
Deposits and balances from banks	24	43,076,769	40,004,001
Amounts payable under repurchase agreements	25	17,011,404	6,121,693
Current accounts and deposits from customers	26	399,086,132	375,170,779
Debt securities issued	27	50,846,356	40,932,595
Other borrowed funds	28	120,913,209	98,128,094
Subordinated borrowings	28	50,414,125	40,919,768
Current tax liability		1,086,688	990,256
Deferred tax liability	14	–	1,025,103
Provision for commitments	33	140,163	–
Other liabilities	29	7,393,812	3,841,631
Total liabilities		**689,989,279**	**607,820,226**
Equity	30		
Share capital		37,300,480	32,087,360
Share premium		16,968,725	7,755,179
Revaluation reserve for financial assets at fair value through other comprehensive income / available-for-sale financial assets		333,435	338,214
Retained earnings		35,155,308	29,721,118
Total equity		**89,757,948**	**69,901,871**
Total liabilities and equity		**779,747,227**	**677,722,097**

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

Statement of cash flows

for the year ended 31 December 2018

	Notes	2018 AMD'000	2017 AMD'000
Cash flows from operating activities			
Interest receipts		58,733,901	45,679,533
Interest payments		(33,083,438)	(28,386,448)
Fee and commission receipts		4,511,231	3,577,025
Fee and commission payments		(1,111,594)	(791,890)
Net payments from financial assets at fair value through profit and loss		453,772	(1,933,348)
Net receipts from foreign exchange transactions		3,586,028	3,601,374
Other operating expenses payments		(2,475,641)	(1,892,480)
Other operating income receipts		4,242,231	2,159,541
Salaries and other payments to employees		(7,165,324)	(5,726,848)
Other general administrative expenses payments		(4,888,861)	(3,223,321)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		(2,240,960)	(814,603)
Loans and advances to banks		5,247,616	(5,003,619)
Amounts receivable under reverse repurchase agreements		1,924,073	(2,223,000)
Loans and advances to customers		(89,537,762)	34,518,400
Other assets		(1,651,412)	(3,934,632)
Increase/(decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		(579,945)	(1,894,376)
Deposits and balances from banks		4,427,815	(31,378,969)
Amounts payable under repurchase agreements		10,913,628	6,096,286
Current accounts and deposits from customers		32,999,639	(46,389,246)
Other liabilities		2,678,452	359,730
Net cash used in operating activities before income tax paid		**(13,016,551)**	**(37,600,891)**
Income tax paid		(2,758,200)	–
Cash flows from operations		**(15,774,751)**	**(37,600,891)**
Cash flows from investing activities			
Purchases of property and equipment and intangible assets		(4,348,326)	(4,345,562)
Proceeds from sale of property and equipment and intangible assets		–	2,048
Purchases of financial assets at fair value through other comprehensive income/Available-for-sale financial assets		(8,735,406)	(17,533,115)
Proceeds from financial assets at fair value through other comprehensive income/Available-for-sale financial assets		6,909,824	20,417,703
Purchases of debt instruments at amortized cost / held-to-maturity investments		(12,208,815)	(79,345,696)
Redemption of debt instruments at amortized cost / held-to-maturity investments		15,956,823	72,727,616
Purchases of bonds of Armenian banks and credit organizations classified as loans and advances to banks as at 31 December 2017		–	(612,754)
Cash flows used in investing activities		**(2,425,900)**	**(8,689,760)**
Cash flows from financing activities			
Dividends paid	30	(1,148,000)	(2,176,201)
Proceeds from issue of share capital		14,426,666	–
Receipts from subordinated debt		9,290,363	–
Receipts of other borrowed funds		109,241,838	67,496,831
Repayment of other borrowed funds		(85,915,500)	(72,097,598)
Proceeds from debt securities issued		24,855,545	23,604,849
Payments for debt securities issued		(12,849,554)	(1,100,239)
Cash flows from financing activities		**57,901,358**	**15,727,642**
Net increase/(decrease) in cash and cash equivalents		**39,700,707**	**(30,563,009)**
Effect of changes in exchange rates on cash and cash equivalents		(2,919,971)	2,898,505
Effect of changes in impairment allowance		(43,192)	–
Cash and cash equivalents as at the beginning of the year		107,616,368	135,280,872
Cash and cash equivalents as at the end of the year	15	**144,353,912**	**107,616,368**

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

Statement of changes in equity

for the year ended 31 December 2018

AMD'000	*Notes*	*Share capital*	*Share premium*	*Revaluation reserve for financial assets at fair value through other comprehensive income/ available-for-sale financial assets*	*Retained earnings*	*Total equity*
Balance as at 1 January 2017		**32,087,360**	**7,755,179**	**307,897**	**24,247,332**	**64,397,768**
Total comprehensive income						
Profit for the year		–	–	–	7,649,987	**7,649,987**
Other comprehensive income for the year		–	–	30,317	–	**30,317**
Total comprehensive income for the year		**–**	**–**	**30,317**	**7,649,987**	**7,680,304**
Transactions with owners, recorded directly in equity						
Dividends	30	–	–	–	(2,176,201)	**(2,176,201)**
Total transactions with owners		**–**	**–**	**–**	**(2,176,201)**	**(2,176,201)**
Balance as at 31 December 2017		**32,087,360**	**7,755,179**	**338,214**	**29,721,118**	**69,901,871**
Balance as at 1 January 2018		**32,087,360**	**7,755,179**	**338,214**	**29,721,118**	**69,901,871**
Impact of adopting IFRS 9 (Note 2)		–	–	57,554	(3,920,254)	**(3,862,700)**
Restated opening balance under IFRS 9		**32,087,360**	**7,755,179**	**395,768**	**25,800,864**	**66,039,171**
Profit for the year		–	–	–	10,502,444	**10,502,444**
Other comprehensive income for the year		–	–	(62,333)	–	**(62,333)**
Total comprehensive income for the year		**–**	**–**	**(62,333)**	**10,502,444**	**10,440,111**
Transactions with owners, recorded directly in equity						
Issue of share capital	30	5,213,120	9,213,546	–	–	**14,426,666**
Dividends	30	–	–	–	(1,148,000)	**(1,148,000)**
Total transactions with owners		**5,213,120**	**9,213,546**	**–**	**(1,148,000)**	**13,278,666**
Balance as at 31 December 2018		**37,300,480**	**16,968,725**	**333,435**	**35,155,308**	**89,757,948**

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

1. Background

(a) Organization and operations

Ameriabank CJSC (formerly Armimpexbank CJSC) (the Bank) was established on 8 December 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased its share in the Bank to 100%. On 23 December 2015 European Bank for Reconstruction and Development (EBRD) purchased in full additionally issued 20,749 shares of the Bank.

On 21 December 2016 ESPS Holding Limited purchased 13.5% of Bank shares from Ameria Group (CY).

On 14 February 2018 Asian Development Bank (ADB) purchased additionally issued all 16,291 shares of the Bank for AMD 14,426,665 thousand.

The shareholders of the Bank as at 31 December 2018 are Ameria Group (CY) 56.60%, EBRD 17.80%, ESPS Holding Limited 11.62% and ADB 13.98%. The ultimate controler and final beneficiary owner of the Bank is Mr. Ruben Vardanyan.

The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank’s assets and liabilities are located in Armenia.

The Bank has 16 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 2 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of the Bank’s employees for 2018 was 891 (2017: 695).

Related party transactions are detailed in Note 36.

(b) Armenian business environment

2018 can be considered a rather positive year for Armenian economy. GDP growth comprised 5.2% for the year, somewhat slower as compared to the previous year, yet still considerable higher compared with the average of previous years. Main contributors to the economy were Manufacturing, Financial intermediation and entertainment. CPI has been quite stable over the last years, and was within CBA target range in 2018 (2.5%). It is important to note that AMD/USD exchange rate has also been mostly stable. Double digit growth of imports was maintained throughout the year (more than 20% yearly growth); exports increased by circa 8%. Remittances have grown only by about 2% in 2018. About 3% decrease in foreign reserves is observed.

Given all above, management believes that it is taking appropriate measures to support the sustainability of the Bank’s business under the current circumstances as well as ensuring relevant buffers to observe potential shocks in the near future.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except that financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income/available-for-sale financial assets are stated at fair value.

2. Basis of preparation (continued)

(c) Reclassifications

Following adoption of IFRS 9, the Bank updated presentation of statement of comprehensive income to present impairment losses determined in accordance with IFRS 9 as a single line item. Accordingly, the following reclassifications of impairment losses on have been made to 2017 statement of comprehensive income to conform to the 2018 presentation.

AMD'000	*As previously reported*	*Reclassification*	*As adjusted*
Impairment losses	5,811,644	(5,811,644)	−
Other impairments	−	122,938	122,938
Credit loss expense	−	5,688,706	5,688,706
Interest income	49,297,198	(49,297,198)	−
Interest revenue calculated using effective interest rate	−	49,110,163	49,110,163
Other interest revenue	−	187,035	187,035

(d) Functional and presentation currency

The financial statements are presented in Armenian Drams (AMD), which is the Bank's functional and presentation currency. Financial information presented in AMD is rounded to the nearest thousand. The official CBA exchange rates at 31 December 2018 and 31 December 2017, were 483.75 AMD and 484.1 AMD to 1 USD, and 553.65 AMD and 580.1 AMD to 1 EUR, respectively.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in Note 20 "Loans and advances to customers", Note 31 "Risk Management" and Note 37 "Financial assets and liabilities: fair values and accounting policies".

(f) Changes in accounting policies and presentation

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Bank 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. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(i) 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.

2. Basis of preparation (continued)

(f) Changes in accounting policies and presentation (continued)

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.

(ii) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank'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 Bank 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.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in the Note 31 (c). The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed section (iii) below.

(iii) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

		IAS 39 measurement		*Reclas-*	*Remeasurement*		*IFRS 9*	
AMD'000	***Ref.***	***Category***	***Amount***	***sification***	***ECL***	***Other***	***Amount***	***Category***
Financial assets								
Cash and cash equivalents		L&R[1]	107,616,368	–	(26,171)	–	107,590,197	Amortised cost
Financial instruments at fair value through profit or loss		FVPL	3,968,064	–	–	–	3,968,064	FVPL (mandatory)
Available-for-sale financial assets		AFS[3]	9,888,078	(9,888,078)	–	–	N/A	N/A
To Financial assets at fair value through other comprehensive income				*9,888,078*	–	–		
Loans and advances to banks		L&R[1]	10,842,890	(628,936)	(11,071)	–	10,202,883	Amortised cost
To Debt securities at amortized cost	A			*628,936*	–	–		
Loans to customers – amortised cost		L&R	479,640,981	–	(4,123,278)	–	475,517,703	Amortised cost
Held-to-maturity investments		HTM[2]	43,305,844	(43,305,844)	–	–	N/A	N/A
To Debt securities at amortised cost				*43,305,844*	–	–		
Debt securities at amortised cost			–	43,934,780	(353,270)	–	43,581,510	Amortised cost
From Loans and advances to banks	A			*(628,936)*	*(10,493)*	–		
From Held-to-maturity investments				*(43,305,844)*	*(342,777)*	–		
Financial instruments at fair value through other comprehensive income			–	9,888,078	–	–	9,888,078	FVOCI
From Available-for-sale financial assets				*(9,888,078)*	–	–		
Other financial assets		L&R[1]	1,508,311	–	(52,299)	–	1,456,012	Amortised cost
Total assets			**656,770,536**	**–**	**(4,566,089)**	**–**	**652,204,447**	
Non-financial liabilities								
Deferred tax liabilities			1,025,103	–	(965,674)	–	59,429	
Provisions for credit-related commitments			–	–	262,285	–	262,285	
Total liabilities			**1,025,103**	**–**	**703,389**	**–**	**321,713**	

[1] L&R: Loans and receivables.

[2] HTM: Held-to-maturity.

[3] AFS: Available-for-sale

A As at 1 January 2018, the Bank reclassified bonds of Armenian banks and credit organizations, which previously did not meet the definition of Held-to-maturity investments according to IAS 39 and were classified as Loans and advances to banks, to Debt securities at amortised cost.

2. Basis of preparation (continued)

(f) Changes in accounting policies and presentation (continued)

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

	Reserves and retained earnings AMD'000
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	**338,214**
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	71,943
Deferred tax in relation to the above	(14,389)
Restated opening balance under IFRS 9 (1 January 2018)	**395,768**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**29,721,118**
Recognition of IFRS 9 ECLs including those measured at FVOCI	(4,900,317)
Deferred tax in relation to the above	980,063
Restated opening balance under IFRS 9 (1 January 2018)	**25,800,864**
Total change in equity due to adopting IFRS 9	**(3,862,700)**

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

AMD'000	*Loan loss allowance/ provision under IAS 39 / IAS 37 at 31 December 2017*	*Re-measurement*	*ECL under IFRS 9 at 1 January 2018*
Impairment allowance for			
Loans and receivables at amortised cost	11,605,412	4,160,520	15,765,932
Held to maturity securities per IAS 39 / investment securities at amortised cost under IFRS 9	–	353,270	353,270
Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9	–	71,943	71,943
Other financial assets	–	52,299	52,299
	11,605,412	**4,638,032**	**16,243,444**
Loan and credit line commitments	–	117,160	**117,160**
Credit card commitments	–	24,126	**24,126**
Guarantees and letters of credit		105,077	**105,077**
Undrawn overdraft facilities	–	15,922	**15,922**
	–	**262,285**	**262,285**
	11,605,412	**4,900,317**	**16,505,729**

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 Bank's financial statements.

2. Basis of preparation (continued)

(f) Changes in accounting policies and presentation (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 Bank'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 Bank's income are not impacted by the adoption of this standard. The adoption of the standard didn't have any material effect on the Bank's revenue and equity as at 1 January 2018.

The Bank occasionally provides consulting services to its clients. Related performance obligations are considered as satisfied when the services have been accepted by the counterparty. The contracts are usually short-term and contain no financing components. The transaction price usually amounts to professional fees specified in the service contracts.

3. Significant accounting policies

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognized in other comprehensive income.

(b) Cash and cash equivalents

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

(c) Precious metals

Gold and other precious metals are recorded at CBA bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBA bid prices are recorded as translation differences from precious metals in other income.

(d) Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets 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 Bank. 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.

3. Significant accounting policies (continued)

(d) Fair value measurement (continued)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing 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 Bank 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.

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

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

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.

Loans and advances to banks, loans and advances to customers, debt securities at amortised cost

Before 1 January 2018, loans and advances to banks, loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term;
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

From 1 January 2018, the Bank only measures loans and advances to banks, loans and advances 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 Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank'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 Bank'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 Bank's original expectations, the Bank 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 Bank 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 Bank 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.

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

From 1 January 2018, the Bank 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.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

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

From 1 January 2018, upon initial recognition, the Bank 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 Bank 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.

As at 1 31 December 2018 all equity instruments held by the Bank were classified as FVOCI.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank 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 Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, 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.

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost. Gains and losses were recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the statement of profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

(f) Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

(g) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

(h) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

(i) 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 Bank 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 Bank 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 Bank 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 Bank’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 Bank could be required to repay.

3. Significant accounting policies (continued)

(i) Derecognition of financial assets and liabilities (continued)

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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Securitisation

As part of its operational activities, the Bank securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitised financial assets may be retained by the Bank and are primary classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of transfer.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery due to realization of collateral or low probability of its repossession. 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 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.

(j) Renegotiated loans

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

From 1 January 2018, the Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss presented within interest revenue calculated using EIR in the statement of comprehensive income, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired.

Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

3. Significant accounting policies (continued)

(k) 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 statement of financial position.

(l) Impairment of financial assets under IAS 39

Before 1 January 2018, the Bank assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Bank assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Bank.

If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in statement of comprehensive income, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis the credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in Note 31 (c).

3. Significant accounting policies (continued)

(m) Leases

Finance − Bank as lessee

The Bank recognises finance leases as assets and liabilities in the 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 Bank'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 − Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. 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.

Operating − Bank as lessee

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

Operating − Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. 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.

(n) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	5-20 years
Computers and communication equipment	5 to 10 years
Fixtures and fittings	5 to 10 years
Motor vehicles	7 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(o) Intangible assets

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

3. Significant accounting policies (continued)

(p) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(q) Provisions

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

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(r) Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers, debt securities issued, and other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

(s) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognized, except for the followings:

- Loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- If the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- Commitments to provide a loan at a below-market interest rate.

(t) Share capital

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

(i) Share premium

Any amount paid in excess of par value of shares issued is recognized as a share premium.

3. Significant accounting policies (continued)

(t) Share capital (continued)

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared and such decision is effective according to legislation of the Republic of Armenia.

(u) Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Trading and Investment Banking (IB).

(v) Taxation

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(w) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank 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

From 1 January 2018, the Bank 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 (before 1 January 2018: by applying EIR to the amortized cost of financial 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 Bank 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.

3. Significant accounting policies (continued)

(w) Recognition of income and expenses (continued)

When a financial asset becomes credit-impaired, the Bank 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 Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank 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.

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Bank’s performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved. Dividend income is recognized in profit or loss on the date that the dividend is declared.

(x) New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank’s financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

3. Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted (continued)

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt the option of modified retrospective approach. The Bank will measure all its ROUs at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

Preliminary estimated effect of adoption of IFRS 16 on Bank’s statement of financial position is as follows:

	1 January 2019 AMD’000
Assets	
Property and equipment (right of use assets)	11,036,594
Other assets (prepayments)	(760,685)
Total assets	**10,275,909**
Liabilities	
Other liabilities (lease liabilities)	10,275,909
Total liabilities	**10,275,909**
Net impact on equity	**–**

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

3. Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted (continued)

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

4. Segment information

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

Retail banking	Principally handling individual and small and micro legal entity 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 (IB)	Treasury and finance, investment banking 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 is managed on a profit before income tax basis and is allocated to operating segments.

4. Segment information (continued)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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

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

2018	*Retail banking AMD'000*	*Corporate banking AMD'000*	*Trading and IB AMD'000*	*Total AMD'000*
Net interest income	1,382,860	21,223,002	4,725,209	**27,331,071**
Net non-interest income	1,438,143	3,435,683	4,577,401	**9,451,227**
Inter-segment revenue	12,266,116	(8,441,826)	(3,824,290)	**–**
Operating profit	**15,087,119**	**16,216,859**	**5,478,320**	**36,782,298**
Credit loss expense	(2,425,331)	(6,797,680)	(157,954)	**(9,380,965)**
Other impairment	–	(22,749)	–	**(22,749)**
Depreciation and amortization	(985,516)	(160,440)	(83,397)	**(1,229,353)**
Personnel and other general administrative expenses	(8,327,863)	(3,015,020)	(1,482,380)	**(12,825,263)**
Profit before income tax	**3,348,409**	**6,220,970**	**3,754,589**	**13,323,968**
Income tax expense	(709,069)	(1,283,923)	(828,532)	**(2,821,524)**
Profit for the year	**2,639,340**	**4,937,047**	**2,926,057**	**10,502,444**

2018	*Retail banking AMD'000*	*Corporate banking AMD'000*	*Trading and IB AMD'000*	*Total AMD'000*
Interest earning financial assets	118,651,578	445,244,596	66,142,737	**630,038,911**
Interest bearing financial liabilities	280,388,443	377,860,540	22,638,025	**680,887,008**

Interest earning assets include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers and debt instruments at amortized cost.

Interest bearing financial liabilities include deposits and balances from banks (excluding Vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

2017	*Retail banking AMD'000*	*Corporate banking AMD'000*	*Trading and IB AMD'000*	*Total AMD'000*
Net interest income (expense)	(2,737,694)	16,375,403	4,726,600	**18,364,309**
Net non-interest income	1,482,223	2,833,507	3,000,275	**7,316,005**
Inter-segment revenue	12,066,784	(8,034,602)	(4,032,182)	**–**
Operating profit	**10,811,313**	**11,174,308**	**3,694,693**	**25,680,314**
Impairment losses	(703,438)	(5,108,206)	–	**(5,811,644)**
Depreciation and amortization	(647,915)	(108,856)	(111,072)	**(867,843)**
Personnel and other general administrative expenses	(5,941,305)	(2,356,313)	(1,166,513)	**(9,464,131)**
Profit before income tax	**3,518,655**	**3,600,933**	**2,417,108**	**9,536,696**
Income tax expense	(696,119)	(712,397)	(478,193)	**(1,886,709)**
Profit for the year	**2,822,536**	**2,888,536**	**1,938,915**	**7,649,987**

4. Segment information (continued)

2017	*Retail banking AMD'000*	*Corporate banking AMD'000*	*Trading and IB AMD'000*	*Total AMD'000*
Interest earning financial assets	78,557,262	412,689,748	74,240,375	**565,487,385**
Interest bearing financial liabilities	248,023,707	335,400,570	17,535,534	**600,959,811**

Interest earning assets include available-for-sale financial assets, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers, gross receivables from letters of credit, gross receivables from finance leases, gross receivables from factoring and held-to-maturity investments.

Interest bearing financial liabilities include deposits and balances from banks (excluding Vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

Geographic information

The Bank's operations are primarily concentrated in Armenia. The Bank has no non-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:

2018	*Retail banking AMD'000*	*Corporate banking AMD'000*	*Trading and IB AMD'000*	*Total AMD'000*
Commission income	**2,722,827**	**1,569,308**	**219,095**	**4,511,230**
Plastic card servicing fees	2,051,820	–	–	**2,051,820**
Money transfers	278,036	664,098	–	**942,134**
Settlements operations	35,019	101,259	–	**136,278**
Brokerage services	2,694	26,314	155,273	**184,281**
Cash withdrawal, account service and distance system services	332,938	494,230	63,822	**890,990**
Guarantee and letter of credit issuance	–	261,087	–	**261,087**
Other	22,320	22,320	–	**44,640**
Other operating income	**166,569**	**892,662**	**1,800,617**	**2,859,848**
Income from consulting services	–	721,322	1,800,617	**2,521,939**
Other income	**166,569**	**171,340**	**–**	**337,909**
Total revenue from contracts with customers	**2,889,396**	**2,461,970**	**2,019,712**	**7,371,078**

5. Net interest income

Net interest income comprises:

	2018 AMD'000	2017 AMD'000
Financial assets measured at amortized cost		
Loans to legal entities and individuals	47,053,601	43,010,061
Debt securities at amortised cost	3,056,988	3,016,721
Receivables from factoring	677,225	538,402
Amounts receivable under reverse repurchase agreements	542,952	581,451
Receivables from letters of credit	471,902	519,822
Loans and advances to banks	417,820	308,430
Other	115,051	76,079
	52,335,539	**48,050,966**
Financial assets measured at fair value through other comprehensive income		
Debt instruments	711,566	1,059,197
Interest revenue calculated using effective interest rate	**53,047,105**	**49,110,163**
Debt instruments at fair value through profit or loss	396,791	40,496
Receivables from finance leases	196,270	146,539
Other interest revenue	**593,061**	**187,035**
Total interest revenue	**53,640,166**	**49,297,198**
Interest expense		
Other borrowed funds and subordinated borrowings	10,895,124	10,045,393
Current accounts and deposits from customers	10,669,140	15,143,588
Debt securities issued	2,604,298	1,770,695
Deposits and balances from banks	1,225,204	3,504,848
Payables under letters of credit	631,857	408,406
Amounts payable under repurchase agreements	281,181	30,182
Other	2,291	29,777
	26,309,095	**30,932,889**
Net interest income	**27,331,071**	**18,364,309**

6. Fee and commission income

	2018 AMD'000	2017 AMD'000
Plastic card servicing fees	2,051,820	1,618,717
Money transfers	942,134	755,527
Cash withdrawal, account service and distance system services	890,990	687,960
Guarantee and letter of credit issuance	261,087	258,080
Brokerage services	184,281	132,355
Settlement operations	136,278	83,937
Other	44,640	40,449
	4,511,230	**3,577,025**

Revenue from contracts with customers

The Bank's revenue from contracts with customers is mostly represented by fee and commission income and revenue from consulting services. Revenue from contracts with customers recognized in the statement of comprehensive income for the year ended 31 December 2018 amounted to:

	2018 AMD'000
Fee and commission income	4,511,230
Other revenue from contracts with customers	2,859,848
Total revenue from contracts with customers	**7,371,078**

7. Fee and commission expense

	2018 *AMD'000*	*2017* *AMD'000*
Plastic card maintenance	828,537	592,739
Money transfers	169,092	120,513
Guarantee and letter of credit issuance	55,364	48,203
Other	58,601	30,435
	1,111,594	**791,890**

8. Net gain/(loss) on financial instruments at fair value through profit or loss

Net gain on financial instruments at fair value through profit or loss comprise:

	2018 *AMD'000*	*2017* *AMD'000*
Net gain/(loss) from currency and interest rate derivative instruments	751,552	(2,009,399)
Net gain from debt instruments at fair value through profit or loss	244,025	33,165
	995,577	**(1,976,234)**

9. Net foreign exchange gain

	2018 *AMD'000*	*2017* *AMD'000*
Net gain on spot transactions	3,586,028	3,601,374
Net (loss)/gain from revaluation of financial assets and liabilities	(451,969)	2,213,961
	3,134,059	**5,815,335**

10. Other operating income

	2018 *AMD'000*	*2017* *AMD'000*
Income from consulting services	2,521,939	511,270
Income from fines and penalties	1,382,383	1,276,206
Other income	337,909	372,065
	4,242,231	**2,159,541**

11. Other operating expenses

	2018 *AMD'000*	*2017* *AMD'000*
Payment system expenses	626,757	487,142
Guarantee payments to Armenian Deposit Guarantee Fund	485,453	408,010
Software maintenance	341,874	288,189
Agent fee	197,039	172,030
Fees for terminal usage	126,706	94,384
Financial system mediator	67,411	71,545
Encashment	64,444	52,318
Credit register expenses	60,938	27,374
Collateral registration expenses	53,038	38,453
Cashback and Referrals	35,603	29,881
Depositary services	26,848	32,880
Monitoring services	21,192	39,694
Other expenses	368,338	150,580
Total	**2,475,641**	**1,892,480**

12. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement comprehensive income for the year ended 31 December 2018:

	Stage 1 AMD'000	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Cash and cash equivalents	17,021	–	–	**17,021**
Amounts receivable under reverse repurchase agreements	7	–	–	**7**
Loans and advances to banks	(5,651)	–	60,652	**55,001**
Loans and advances to customers, including	4,503,021	69,411	4,347,459	**8,919,891**
Loans to legal entities and individuals	*4,454,462*	*182,071*	*4,135,777*	***8,772,310***
Receivables from finance leases	*2,486*	–	*211,682*	***214,168***
Receivables from factoring	*24,455*	–	–	***24,455***
Receivables from letter of credits	*21,618*	*(112,660)*	–	***(91,042)***
Debt securities measured at amortised cost	85,437	–	–	**85,437**
Debt securities measured at FVOCI	72,517	–	–	**72,517**
Other financial assets	8,024	(2,025)	270,040	**276,039**
Guarantees and letters of credit	(2,134)	(7,347)	–	**(9,481)**
Loan and credit line commitments	(22,555)	(9,695)	(440)	**(32,690)**
Credit card commitments	2,305	(40)	(5,569)	**(3,304)**
Undrawn overdraft facilities	1,838	–	(1,311)	**527**
Total credit loss expense	**4,659,830**	**50,304**	**4,670,831**	**9,380,965**

The movements in other impairment allowances and provisions were as follows:

	Other non-financial assets AMD'000
1 January 2017	**89,162**
Charge	122,938
Write-offs	(85,885)
31 December 2017	**126,215**
Charge	22,749
31 December 2018	**148,964**

13. Other general administrative expenses

	2018 AMD'000	*2017 AMD'000*
Operating lease expense	2,204,391	1,042,965
Depreciation and amortization	1,229,353	867,843
Advertising and marketing	698,705	674,755
Repairs and maintenance	319,010	316,976
Professional services	223,635	157,877
Security	168,667	136,252
Communications and information services	130,506	106,513
Business trips	130,458	117,628
Training and education	104,121	39,044
Electricity and utilities	103,734	94,490
Charity and sponsorship	94,191	90,384
Office supplies	46,405	30,770
Insurance	36,276	30,106
Taxes other than on payroll and income	24,563	25,497
Representation expenses	3,812	16,902
Other	600,387	343,159
	6,118,214	**4,091,161**

14. Income tax expense

	2018 AMD'000	*2017 AMD'000*
Current tax expense		
Current tax charge	2,923,474	2,353,859
Adjustments in respect of current income tax of previous year	127,794	(41,802)
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	(229,744)	(425,348)
Total income tax expense	**2,821,524**	**1,886,709**

In 2018 the applicable tax rate for current and deferred tax is 20% (2017: 20%). In 2018 the Bank set off income tax liabilities in amount of AMD 196,636 thousand against withholding tax receivables

Reconciliation of effective tax rate

	2018 AMD'000	*%*	*2017 AMD'000*	*%*
Profit before tax	**13,323,968**		**9,536,696**	
Income tax at the applicable tax rate	**2,664,794**	**20%**	**1,907,339**	**20%**
Prior period income tax correction	127,794		(41,802)	
Net gain from revaluation of financial assets and liabilities and net loss on financial instruments at fair value through profit or loss (non-taxable part)	(8,705)		10,338	
Non-deductible expenses	37,641		10,834	
Total income tax expense	**2,821,524**		**1,886,709**	

(i) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax asset and net deferred tax liabilities accordingly as at 31 December 2018 and 2017. The deductible temporary differences do not expire under current tax legislation.

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

2018 AMD'000	*Balance 1 January 2018*	*Effect of adoption of IFRS 9*	*Recognized in profit or loss*	*Recognized in other comprehen-sive income*	*Balance 31 December 2018*
Financial instruments at fair value through profit or loss	(30,281)	–	(5,730)	–	(36,011)
Financial assets at fair value through other comprehensive income	(84,556)	–	14,503	15,583	(54,470)
Loans and advances to customers	(1,075,288)	792,452	103,756	–	(179,080)
Other financial instruments at amortised cost and provisions	(197,755)	173,222	5,763	–	(18,770)
Property and equipment	(68,334)	–	16,594	–	(51,740)
Other assets	25,243	–	19,053	–	44,296
Other liabilities	448,558	–	145,684	–	594,242
Other borrowed funds	(42,690)	–	(69,879)	–	(112,569)
Total deferred tax asset/(liability)	**(1,025,103)**	**965,674**	**229,744**	**15,583**	**185,898**

14. Income tax expense (continued)

Reconciliation of effective tax rate (continued)

2017 *AMD'000*	*Balance 1 January 2017*	*Recognized in profit or loss*	*Recognized in other comprehen-sive income*	*Balance 31 December 2017*
Financial instruments at fair value through profit or loss	(102,874)	72,593	–	(30,281)
Available-for-sale financial assets	(76,977)	–	(7,579)	(84,556)
Allowance for other receivables and other provisions	(197,664)	(91)	–	(197,755)
Loans and advances to customers	(1,336,197)	260,909	–	(1,075,288)
Property and equipment	(45,152)	(23,182)	–	(68,334)
Other assets	10,500	14,743	–	25,243
Other liabilities	362,234	86,324	–	448,558
Other borrowed funds	(56,742)	14,052	–	(42,690)
Total deferred tax liability	**(1,442,872)**	**425,348**	**(7,579)**	**(1,025,103)**

15. Cash and cash equivalents

	2018 *AMD'000*	*2017* *AMD'000*
Cash on hand	**23,812,923**	**18,139,767**
Nostro accounts with the CBA, including obligatory reserves	**108,760,743**	**76,917,450**
Nostro accounts with other banks		
- rated AA- to AA+	–	12,922
- rated A- to A+	2,055,194	7,406,733
- rated from BB- to BBB+	9,023,253	5,095,603
- not rated	744,991	43,893
Total nostro accounts with other banks	**11,823,438**	**12,559,151**
Impairment	**(43,192)**	**–**
Total cash and cash equivalents	**144,353,912**	**107,616,368**

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 18% of the amounts attracted in foreign currency. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation, however, if the Bank fails to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams, and minimum average amount of reserve for a two-week period for amounts attracted in foreign currency, the sanctions may apply.

As of 31 December 2018 included in Nostro accounts with the CBA is the amount of obligatory reserve of AMD 69,285,379 thousand (2017: AMD 66,516,596 thousand).

The above ratings of correspondent Banks are per Fitch rating agency.

As at 31 December 2018 the Bank does not have placement with any bank (2017: placement with one bank), whose balances exceed 10% of the Bank's equity. The gross value of these balances as at 31 December 2017 is AMD 7,406,733 thousand.

As at 31 December 2018 and 31 December 2017 the balances with the Central Bank of Armenia exceed 10% of the Bank's equity.

During 2018 the Bank reclassified cash equivalents in amount of AMD 60,652 thousand to loans and advances to banks due to impairment of these balances.

15. Cash and cash equivalents (continued)

ECL change of cash and cash equivalents

	Impairment allowance AMD'000
1 January 2018	**26,171**
Change in ECL	17,021
At 31 December 2018	**43,192**

16. Financial instruments at fair value through profit or loss

	2018 AMD'000	*2017 AMD'000*
Assets		
Debt and other fixed-income trading instruments		
Government securities of the Republic of Armenia	3,896,848	1,443,746
Government Eurobonds of the Republic of Armenia	495,621	521,780
Corporate bonds of the Armenian companies	1,773,153	1,049,673
Derivative financial instruments		
Interest rate swaps	84,237	62,835
Currency swaps	40,982	890,030
	6,290,841	**3,968,064**
Pledged under sale and repurchase agreements		
Government securities of the Republic of Armenia	526,169	–
	526,169	**–**
Liabilities		
Derivative financial instruments		
Currency swaps	20,621	686,306
	20,621	**686,306**

Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2018 and 2017 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss, as appropriate.

	Fair value		*Notional amount*	
	2018 AMD'000	*2017 AMD'000*	*2018 AMD'000*	*2017 AMD'000*
Pay fixed in USD, receive floating in USD	84,237	62,835	3,518,182	6,931,432

As at 31 December 2018 the Bank has one interest rate swap contract, with USD 10,000,000 initial notional amount (2017: three interest rate swap contracts with USD 15,000,000 notional amount and one with USD 10,000,000 initial notional amount). Under these contracts the Bank pays 1.5850% fixed rate, and receives 6-month USD-LIBOR-BBA floating rates for each contract, respectively. The contractual maturity of outstanding interest rate swap contracts is in 2022.

Currency swaps

As at 31 December 2018 the Bank has 7 (2017: 30) currency swap agreements with six (2017: nine) counterparties in AMD, USD, EUR and Russian roubles. As at 31 December 2018, AMD equivalent of total notional amount of these agreements comprises AMD 12,998,419 thousand (2017: AMD 91,882,316 thousand).

17. Financial assets at fair value through other comprehensive income and available-for-sale financial assets

Financial assets at fair value through other comprehensive income include:

Held by the Bank	*2018 AMD'000*	*2017 AMD'000*
Debt and other fixed-income instruments		
Government bonds		
- Government securities of the Republic of Armenia	4,645,203	–
- Government Eurobonds of the Republic of Armenia	3,019,309	–
- Government Eurobonds of other countries	1,273,589	–
Corporate bonds		
- Corporate bonds of Armenian companies	2,524,882	–
Equity investments		
Unquoted equity securities	139,145	–
	11,602,128	**–**

Available-for-sale financial assets include:

Held by the Bank	*2018 AMD'000*	*2017 AMD'000*
Debt and other fixed-income instruments		
Government bonds		
- Government securities of the Republic of Armenia	–	4,712,578
- Government Eurobonds of the Republic of Armenia	–	1,083,830
- Government Eurobonds of other countries	–	2,942,639
Corporate bonds		
- Corporate bonds of Armenian companies	–	1,042,573
Equity investments		
Unquoted equity securities	–	106,458
	–	**9,888,078**

Included in Financial assets at fair value through other comprehensive income and available-for-sale financial assets are non-quoted equity securities as follows:

Name	*Country of incorporation*	*Main activity*	*% Controlled 2018*	*% Controlled 2017*	*2018 AMD'000*	*2017 AMD'000*
Artsakh bank CJSC	Republic of Armenia	Banking	0.3%	0.3%	69,250	69,250
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	36,429
SWIFT	Belgium	Money transfer	0.00%	0.00%	33,466	779
					139,145	**106,458**

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 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	9,781,620	**9,781,620**
New assets originated or purchased	7,213,115	**7,213,115**
Assets repaid	(325,821)	**(325,821)**
Assets sold	(5,205,931)	**(5,205,931)**
At 31 December 2018	**11,462,983**	**11,462,983**

17. Financial assets at fair value through other comprehensive income and available-for-sale financial assets (continued)

Debt securities at FVOCI	*Stage 1 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	71,943	**71,943**
New assets originated or purchased	84,827	**84,827**
Assets repaid	(2,396)	**(2,396)**
Assets sold	(38,289)	**(38,289)**
Changes to models and inputs used for ECL calculations	28,375	**28,375**
At 31 December 2018	**144,460**	**144,460**

The Bank has designated its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading. Investments primarily include mandatory shares in exchanges and clearing houses and investments in other banks.

Information on credit quality of financial assets at fair value through other comprehensive income as at 31 December 2018 is presented in Note 31 (c).

18. Loans and advances to banks

	2018 AMD'000	*2017 AMD'000*
Due from the CBA		
Credit card settlement deposit with the CBA	1,691,000	1,423,500
Debt instruments of Armenian banks and credit organizations		
Bonds of Armenian banks and credit organizations	–	628,936
Loans and deposits with other banks		
Armenian banks	1,838,147	8,726,923
OECD banks	1,483,537	63,531
Total loans and deposits with other banks	**3,321,684**	**8,790,454**
Impairment	(66,072)	–
Total loans and advances to banks at amortised cost	**4,946,612**	**10,842,890**

No loans and advances to banks are past due.

Concentration of loans and advances to banks

As at 31 December 2018 the Bank has no counterparty (2017: one bank), whose balances exceed 10% of equity. As at 31 December 2017 the balance amounted to AMD 8,726,923 thousand.

As at 1 January 2018, the Bank reclassified bonds of Armenian banks and credit organizations, which previously did not meet the definition of Held-to-maturity investments according to IAS 39 and were classified as Loans and advances to banks, to Debt securities at amortised cost.

An analysis of changes in gross carrying value and corresponding ECL allowance on loans and advances to banks during the year ended 31 December 2018 is as follows:

	Stage 1 AMD'000	*Stage 3 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	10,213,954	–	**10,213,954**
New assets originated or purchased	4,952,032	–	**4,952,032**
Reclassification from cash equivalents	–	60,652	**60,652**
Assets repaid	(10,213,954)	–	**(10,213,954)**
At 31 December 2018	**4,952,032**	**60,652**	**5,012,684**

18. Loans and advances to banks (continued)

Concentration of loans and advances to banks (continued)

The movements in allowance for impairment of loans and advances to banks during the year ended 31 December 2018 were as follows:

	Stage 1 AMD'000	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	11,071	–	**11,071**
New assets originated or purchased	5,420	–	**5,420**
Reclassification from cash equivalents	–	60,652	**60,652**
Assets repaid	(11,071)	–	**(11,071)**
At 31 December 2018	**5,420**	**60,652**	**66,072**

Information on credit quality of loans and advances to banks as at 31 December 2018 is presented in Note 31 (c).

19. Amounts receivable under reverse repurchase agreements

	2018 AMD'000	*2017 AMD'000*
Amounts receivable from Armenian banks and other financial institutions	6,746,424	8,675,394
Impairment	(10)	–
Total net amounts receivable under reverse repurchase agreements at amortised cost	**6,746,414**	**8,675,394**

Collateral

As at 31 December 2018 amounts receivable under reverse repurchase agreements were collateralized by government securities with fair value of AMD 7,148,759 thousand (2017: 9,112,667 thousand).

Information on credit quality of amounts receivable under reverse repurchase agreements as at 31 December 2018 is presented in Note 31 (c).

20. Loans and advances to customers

	2018 AMD'000	*2017 AMD'000*
Loans to legal entities	440,285,372	416,715,125
Loans to individuals	102,282,025	61,889,809
Receivables from letter of credit	8,305,930	4,129,748
Receivables from factoring	10,720,377	6,752,241
Gross loans and advances to customers at amortised cost	**561,593,704**	**489,486,923**
Receivables from finance lease	2,301,830	1,759,470
Impairment allowance	(15,952,351)	(11,605,412)
Net loans and advances to customers	**547,943,183**	**479,640,981**

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals

	2018 AMD'000	*2017 AMD'000*
Loans to legal entities		
Loans to large companies	346,631,927	333,102,167
Loans to small and medium size companies	93,653,445	83,612,958
Total loans to legal entities	**440,285,372**	**416,715,125**
Loans to individuals		
Mortgage loans	44,827,381	28,601,855
Other consumer loans to individuals	57,454,644	33,287,954
Total loans to individuals	**102,282,025**	**61,889,809**
Gross loans to legal entities and individuals	**542,567,397**	**478,604,934**
Impairment allowance	(15,603,207)	(11,294,202)
Net loans to legal entities and individuals	**526,964,190**	**467,310,732**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to legal entities during the year ended 31 December 2018 is as follows:

Loans to legal entities	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**379,798,966**	**22,426,969**	**14,489,190**	**416,715,125**
New assets originated or purchased	188,072,142	–	–	**188,072,142**
Assets repaid	(142,830,985)	(10,431,544)	(3,616,256)	**(156,878,785)**
Transfers to Stage 1	2,364	(2,364)	–	**–**
Transfers to Stage 2	(15,396,444)	15,396,444	–	**–**
Transfers to Stage 3	(2,741,770)	(8,448,664)	11,190,434	**–**
Recoveries	–	–	323,055	**323,055**
Amounts written off	–	–	(7,946,165)	**(7,946,165)**
At 31 December 2018	**406,904,273**	**18,940,841**	**14,440,258**	**440,285,372**

Loans to legal entities	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**2,938,873**	**4,113,375**	**7,186,602**	**14,238,850**
New assets originated or purchased	3,899,001	–	–	**3,899,001**
Assets repaid	(645,996)	(955,677)	(1,136,512)	**(2,738,185)**
Transfers to Stage 1	516	(516)	–	**–**
Transfers to Stage 2	(969,110)	969,110	–	**–**
Transfers to Stage 3	(810,516)	(2,514,209)	3,324,725	**–**
Impact on period end ECL of exposures transferred between stages during the period	(499)	1,265,716	1,788,490	**3,053,707**
Unwinding of discount	–	–	(131,708)	**(131,708)**
Changes to models and inputs used for ECL calculations	(579,634)	(128,497)	3,108,350	**2,400,219**
Recoveries	–	–	323,055	**323,055**
Amounts written off	–	–	(7,946,165)	**(7,946,165)**
At 31 December 2018	**3,832,635**	**2,749,302**	**6,516,837**	**13,098,774**

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2018 is as follows:

Mortgage loans	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**27,809,143**	**45,904**	**746,808**	**28,601,855**
New assets originated or purchased	22,274,342	–	–	**22,274,342**
Assets repaid	(5,477,750)	(21,873)	(512,902)	**(6,012,525)**
Transfers to Stage 1	8,304	(8,304)	–	**–**
Transfers to Stage 2	(2,824)	2,824	–	**–**
Transfers to Stage 3	(263,153)	(15,727)	278,880	**–**
Recoveries	–	–	182,667	**182,667**
Amounts written off	–	–	(218,958)	**(218,958)**
At 31 December 2018	**44,348,062**	**2,824**	**476,495**	**44,827,381**

Mortgage loans	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**61,978**	**2,645**	**220,417**	**285,040**
New assets originated or purchased	59,094	–	–	**59,094**
Assets repaid	(8,116)	(25)	(182,667)	**(190,808)**
Transfers to Stage 1	521	(521)	–	**–**
Transfers to Stage 2	(7)	7	–	**–**
Transfers to Stage 3	(568)	(2,125)	2,693	**–**
Impact on period end ECL of exposures transferred between stages during the period	(188)	238	46,553	**46,603**
Unwinding of discount	–	–	(20,029)	**(20,029)**
Changes to models and inputs used for ECL calculations	8,031	–	139,947	**147,978**
Recoveries	–	–	182,667	**182,667**
Amounts written off	–	–	(218,958)	**(218,958)**
At 31 December 2018	**120,745**	**219**	**170,623**	**291,587**

Other loans to individuals	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**30,737,070**	**225,501**	**2,325,383**	**33,287,954**
New assets originated or purchased	37,854,568	–	–	**37,854,568**
Assets repaid	(12,598,679)	(15,545)	(659,770)	**(13,273,994)**
Transfers to Stage 1	3,567	(3,567)	–	**–**
Transfers to Stage 2	(474,835)	474,835	–	**–**
Transfers to Stage 3	(2,008,283)	(206,389)	2,214,672	**–**
Recoveries	–	–	164,507	**164,507**
Amounts written off	–	–	(578,391)	**(578,391)**
At 31 December 2018	**53,513,408**	**474,835**	**3,466,401**	**57,454,644**

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

Other consumer loans	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**142,036**	**41,504**	**549,035**	**732,575**
New assets originated or purchased	1,767,951	–	–	**1,767,951**
Assets repaid	(36,127)	(706)	(167,472)	**(204,305)**
Transfers to Stage 1	18	(18)	–	**–**
Transfers to Stage 2	(119,919)	119,919	–	**–**
Transfers to Stage 3	(827,026)	(34,849)	861,875	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	1,022	142,847	**143,869**
Unwinding of discount	–	–	(200,546)	**(200,546)**
Changes to models and inputs used for ECL calculations	(9,055)	–	396,241	**387,186**
Recoveries	–	–	164,507	**164,507**
Amounts written off	–	–	(578,391)	**(578,391)**
At 31 December 2018	**917,878**	**126,872**	**1,168,096**	**2,212,846**

Movements in the loan impairment allowance by classes of loans to legal entities and individuals for the year 2017 are as follows:

	Loans to legal entities AMD'000	*Loans to individuals AMD'000*	*Total AMD'000*
Balance at the beginning of the year	**8,490,328**	**496,044**	**8,986,372**
Net charge	5,081,973	375,824	**5,457,797**
Recovery of loans previously written off	161,236	188,483	**349,719**
Write-offs	(2,957,248)	(542,437)	**(3,499,685)**
Balance at the end of the year	**10,776,289**	**517,914**	**11,294,203**

(i) Credit quality of loans to legal entities and individuals

The following table provides information on the credit quality of net loans to legal entities and individuals as at 31 December 2018:

	Stages	*High grade AMD'000*	*Standard grade AMD'000*	*Sub-standard grade AMD'000*	*Impaired AMD'000*	*Total AMD'000*
Loans to Legal entities	Stage 1	11,001,416	392,070,222	–	–	**403,071,638**
	Stage 2	–	–	16,191,539	–	**16,191,539**
	Stage 3	–	–	–	7,923,421	**7,923,421**
Mortgage loans	Stage 1	–	44,227,317	–	–	**44,227,317**
	Stage 2	–	–	2,605	–	**2,605**
	Stage 3	–	–	–	305,872	**305,872**
Other consumer loans	Stage 1	–	52,595,530	–	–	**52,595,530**
	Stage 2	–	–	347,963	–	**347,963**
	Stage 3	–	–	–	2,298,305	**2,298,305**
Total		**11,001,416**	**488,893,069**	**16,542,107**	**10,527,598**	**526,964,190**

The table below presents average PDs per grades for loans and advances to customers under baseline scenario.

	Grade	*PD range*
Loans to Legal entities	Standard	3.1%-38.1%
	Sub-standard	66.4%
	Impaired	100%
Mortgage loans	Standard	1.3%-20.2%
	Sub-standard	56.6%
	Impaired	100%
Other consumer loans	Standard	1.5%-27.23%
	Sub-standard	62.9%
	Impaired	100%

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

High grade instruments include cash-covered loans and advances to customers. No impairment of allowance is created for these loans because of the collateral.

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2017:

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to corporate customers				
Loans to large corporates				
Not impaired loans				
- not overdue	321,466,902	2,951,032	318,515,870	0.92%
- overdue more than 90 days	127,085	1,296	125,789	1.02%
Total not impaired loans	**321,593,987**	**2,952,328**	**318,641,659**	**0.92%**
Impaired loans				
- not overdue	5,832,937	1,386,725	4,446,212	23.77%
- overdue more than 90 days	5,675,243	3,171,094	2,504,149	55.88%
Total impaired loans	**11,508,180**	**4,557,819**	**6,950,361**	**39.61%**
Total loans to large corporates	**333,102,167**	**7,510,147**	**325,592,020**	**2.25%**
Loans to small and medium size companies				
Not impaired loans				
- not overdue	75,594,081	1,280,622	74,313,459	1.69%
- overdue less than 30 days	1,595,583	27,764	1,567,819	1.74%
- 31-90 days overdue	616,922	10,734	606,188	1.74%
- overdue more than 90 days	1,538,325	26,767	1,511,558	1.74%
Total not impaired loans	**79,344,911**	**1,345,887**	**77,999,024**	**1.70%**
Impaired loans				
- overdue more than 90 days	4,268,047	1,920,255	2,347,792	44.99%
Total impaired loans	**4,268,047**	**1,920,255**	**2,347,792**	**44.99%**
Total loans to small and medium size companies	**83,612,958**	**3,266,142**	**80,346,816**	**3.91%**
Total loans to corporate customers	**416,715,125**	**10,776,289**	**405,938,836**	**2.59%**

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to retail customers				
Mortgage loans				
- not overdue	27,823,344	55,646	27,767,698	0.20%
- overdue less than 30 days	21,143	1,717	19,426	8.12%
- 31-90 days overdue	137,186	52,000	85,186	37.90%
- overdue more than 90 days	620,182	139,441	480,741	22.48%
Total mortgage loans	**28,601,855**	**248,804**	**28,353,051**	**0.87%**
Credit cards				
- not overdue	17,531,427	37,611	17,493,816	0.21%
- overdue less than 30 days	52,436	6,033	46,403	11.51%
- 31-90 days overdue	45,328	14,822	30,506	32.70%
- overdue more than 90 days	1,395,589	36,721	1,358,868	2.63%
Total credit cards	**19,024,780**	**95,187**	**18,929,593**	**0.50%**
Business loans				
- not overdue	957,333	15,222	942,111	1.59%
- 31-90 days overdue	97,537	1,550	95,987	1.59%
Total business loans	**1,054,870**	**16,772**	**1,038,098**	**1.59%**
Auto loans				
- not overdue	2,011,391	4,023	2,007,368	0.20%
- overdue less than 30 days	6,847	523	6,324	7.64%
- 31-90 days overdue	2,216	170	2,046	7.67%
- overdue more than 90 days	20,146	42	20,104	0.21%
Total auto loans	**2,040,600**	**4,758**	**2,035,842**	**0.23%**
Consumer loans				
- not overdue	10,839,229	21,679	10,817,550	0.20%
- overdue less than 30 days	6,009	475	5,534	7.90%
- 31-90 days overdue	71,366	11,245	60,121	15.76%
- overdue more than 90 days	251,100	118,994	132,106	47.39%
Total consumer loans	**11,167,704**	**152,393**	**11,015,311**	**1.36%**
Total loans to retail customers	**61,889,809**	**517,914**	**61,371,895**	**0.84%**
Total loans to legal entities and individuals	**478,604,934**	**11,294,203**	**467,310,731**	**2.36%**

As at 31 December 2017 not impaired loans to large companies include one loan with individual signs of impairment with gross balance in amount of AMD 127,085 thousand and impairment allowance of AMD 1,296 thousand.

As at 31 December 2017 not impaired loans to small and medium size companies include eight loans with individual signs of impairment with gross balance in amount of AMD 2,747,775 thousand and impairment allowance of AMD 47,811 thousand.

(ii) Key assumptions and judgments for estimating the loan impairment

Key assumptions and judgments for estimating the ECL under IFRS 9 is presented in Note 31 (c).

Key assumptions and judgments for estimating the loan impairment under IAS 39

Loans to legal entities

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

The objective indicators of loan impairment for loans to legal entities include the following:

- Overdue payments under the loan agreement;
- Significant difficulties in the financial conditions of the borrower;
- Deterioration in business environment or negative changes in the borrower's markets.

The Bank estimates loan impairment for loans to legal entities based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment have been identified.

In determining the impairment allowance for loans to legal entities, management makes the following key assumptions:

- Historic annual loss rate is applied for performing loans to legal entities and small and medium size companies. Historic annual loss rate is estimated based on average loan write-off statistics and economic coefficient and is applied in respect of performing loans to legal entities.
- Recoverable amount for loans with individual signs of impairment is calculated based on following assumptions:
  1) A discount of between 20% and 30% to the collateral value;
  2) A delay of 12 months in obtaining proceeds from the foreclosure of collateral;
  3) Cash flows from renegotiated loans are assessed based on the rescheduled agreement terms.

Loans to individuals

The Bank estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- Loss migration rates are estimated based on the historic loss migration pattern for the past 24 months. Loss migration rates are applied in respect of mortgage, credit card, auto and consumer loans;
- Historic annual loss rate is estimated based on average loan write-off statistics and economic coefficient and is applied in respect of performing business loans to individuals.

(iii) Individually impaired loans

Interest income accrued on individually impaired loans for the year ended 31 December 2017 comprised AMD 786,780 thousand.

(iv) Analysis of collateral

Loans to legal entities

Loans to legal entities are subject to individual credit appraisal and impairment testing. The general creditworthiness of legal entities tends to be important indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests legal entities to provide it.

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; cash collateral.
- For retail lending, mortgages over residential properties.

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

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

The fair value of collateral that the Bank holds relating to loans with individual signs of impairment at 31 December 2017 amounts to AMD 12,576,099 thousand.

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

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

(v) Collateral pledged for loans to customers

The following table provides information on the collateral pledged for the loans to customers classified at stage 3 as of 31 December 2018:

AMD'000	*Maximum exposure to credit risk*	*Fair value of collateral held under the base scenario* Real estate	*Vehicles*	*Other*	*Surplus*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2018								
Loans to legal entities	14,440,258	6,323,371	434,900	3,311,887	(570,944)	**9,499,214**	4,941,044	6,516,837
Mortgage loans	476,495	457,883	–	–	(80,883)	**377,000**	99,495	170,623
Other consumer loans	3,466,401	2,533,102	8,900	13,700	(689,305)	**1,866,397**	1,600,004	1,168,095
Total	**18,383,154**	**9,314,356**	**443,800**	**3,325,587**	**(1,341,132)**	**11,742,611**	**6,640,543**	**7,855,555**

As at 31 December 2018, the balance of cash-covered loans for which no impairment for allowance was created because of the collateral, amounted to AMD 11,001,416 thousand.

Loans to individuals

Mortgage loans are secured by the underlying housing real estate.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Business loans are secured by real estate and corporate shares. Auto loans are secured by the underlying cars. As of 31 December 2018 consumer loans are secured by real estate, movable property, salary, cash and guarantees.

Repossessed collateral

During the year 2018, the Bank obtained certain assets by taking possession of collateral for loans to legal entities with a net carrying amount of AMD 2,032,546 thousand (2017: AMD 617,777 thousand). As at 31 December 2018 the repossessed collateral comprise real estate and is classified as other assets.

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

(vi) Industry and geographical analysis of the loans to legal entities and individuals

Loans were issued to finance the following economic sectors:

	2018 AMD'000	*2017 AMD'000*
Wholesale trade	97,912,612	76,026,834
Mining/metallurgy	61,847,784	51,048,122
Finance and investment	43,073,908	74,110,288
Hotel service	37,495,210	32,463,343
Retail trade	28,884,100	21,081,805
Transportation	28,449,596	7,827,878
Construction	23,371,992	30,072,853
Energy	21,980,801	17,184,852
Food and beverage	23,692,826	21,641,394
Communication services	20,615,886	13,161,817
Agriculture, forestry and timber	18,570,577	27,180,750
Other	14,531,704	22,158,572
Real estate	12,375,233	13,297,236
Manufacturing	7,483,143	9,459,381
Loans to individuals	102,282,025	61,889,809
	542,567,397	**478,604,934**
Impairment allowance	(15,603,207)	(11,294,203)
	526,964,190	**467,310,731**

20. Loans and advances to customers (continued)

(a) Loans to legal entities and individuals (continued)

The geographical concentration of Bank's loans to legal entities (net loans) is set out below:

	2018 AMD'000	*2017 AMD'000*
Armenia	351,974,113	312,607,979
OECD and EU	35,463,833	46,222,319
Other foreign countries	39,748,652	47,108,538
	427,186,598	**405,938,836**

(vii) Significant credit exposures

As at 31 December 2018 the Bank has eleven borrowers or groups of connected borrowers (2017: seventeen), whose loan balances exceed 10% of the Bank's equity. The exposure on these loans (net of cash collateral received) as at 31 December 2018 is AMD 124,491,863 thousand (2017: AMD 163,847,088 thousand).

(viii) Loan maturities

The maturity of the loan portfolio is presented in Note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(b) Receivables from letters of credit

	2018 AMD'000	*2017 AMD'000*
Receivables from letters of credit, gross amount	8,305,930	4,129,748
Impairment allowance	(37,391)	(8,259)
	8,268,539	**4,121,489**

As at 31 December 2018 the Bank has no customers (2017: none), whose balances exceed 10% of the Bank's equity.

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables from letters of credit during the year ended 31 December 2018 is as follows:

	Stage 1 AMD'000	*Stage 2 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**3,508,851**	**620,897**	**4,129,748**
New assets originated or purchased	7,492,016	–	**7,492,016**
Assets repaid	(2,694,937)	(620,897)	**(3,315,834)**
At 31 December 2018	**8,305,930**	**–**	**8,305,930**

	Stage 1 AMD'000	*Stage 2 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**15,773**	**112,660**	**128,433**
New assets originated or purchased	33,057	–	**33,057**
Assets repaid	(8,716)	(112,660)	**(121,376)**
Changes to models and inputs used for ECL calculations	(2,723)	–	**(2,723)**
At 31 December 2018	**37,391**	**–**	**37,391**

20. Loans and advances to customers (continued)

(b) Receivables from letters of credit (continued)

Movements in impairment allowance for the year 2017 are as follows:

	2017 AMD'000
Balance at the beginning of the year	**15,445**
Net charge	(7,186)
Write-offs	–
Balance at the end of the year	**8,259**

(i) Quality analysis of letters of credit

As at 31 December 2018 and the Bank does not have any overdue amounts receivable from letters of credit (2017: nil). The assets are classified in Stage 1 for ECL calculation purposes and have standard grade.

(c) Receivables from finance leases

	2018 AMD'000	*2017 AMD'000*
Gross investment in finance leases receivable		
Less than one year	609,931	491,429
Between one and five years	1,412,864	947,298
More than five years	871,025	908,848
	2,893,820	**2,347,575**
Unearned finance income		
Less than one year	(16,794)	(7,451)
Between one and five years	(274,498)	(196,211)
More than five years	(300,698)	(384,443)
	(591,990)	**(588,105)**
Impairment allowance	(277,625)	(289,446)
Net investment in finance leases	**2,024,205**	**1,470,024**
The net investment in finance leases comprises		
Less than one year	534,622	423,387
Between one and five years	1,002,820	634,289
More than five years	486,763	412,348
	2,024,205	**1,470,024**

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease during the year ended 31 December 2018 is as follows:

	Stage 1 AMD'000	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**1,065,210**	**86,601**	**607,659**	**1,759,470**
New assets originated or purchased	1,403,082	–	–	**1,403,082**
Assets repaid	(313,933)	–	(276,131)	**(590,064)**
Transfers to Stage 3	(291,005)	(86,601)	377,606	**–**
Recoveries	–	–	6,559	**6,559**
Amounts written off	–	–	(277,217)	**(277,217)**
At 31 December 2018	**1,863,354**	**–**	**438,476**	**2,301,830**

20. Loans and advances to customers (continued)

(c) Receivables from finance leases (continued)

	Stage 1 AMD'000	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**9,646**	**15,887**	**308,582**	**334,115**
New assets originated or purchased	7,999	–	–	**7,999**
Assets repaid	(1,835)	–	(6,559)	**(8,394)**
Transfers to Stage 3	(68)	(15,887)	15,955	**–**
Changes to models and inputs used for ECL calculations	(3,678)	–	–	**(3,678)**
Impact on period end ECL of exposures transferred between stages during the period	–	–	218,241	**218,241**
Recoveries	–	–	6,559	**6,559**
Amounts written off	–	–	(277,217)	**(277,217)**
At 31 December 2018	**12,064**	**–**	**265,561**	**277,625**

(i) Quality analysis of finance leases

The following table provides information on the quality analysis of net finance leases as at 31 December 2018

	Stages	*High grade AMD'000*	*Standard grade AMD'000*	*Sub-standard grade AMD'000*	*Impaired AMD'000*	*Total AMD'000*
Financial lease	Stage 1	–	1,851,310	–	–	**1,851,310**
	Stage 2	–	–	–	–	**–**
	Stage 3	–	–	–	172,895	**172,895**
Total		**–**	**1,851,310**	**–**	**172,895**	**2,024,205**

The following table provides information on the quality analysis of finance leases as at 31 December 2017:

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Finance leases				
- not overdue	1,194,992	111,583	1,083,409	9.34%
- overdue less than 30 days	86,601	1,507	85,094	1.74%
- 31-90 days overdue	6,374	111	6,263	1.74%
- more than 90 days	471,503	176,245	295,258	37.38%
Total finance leases	**1,759,470**	**289,446**	**1,470,024**	**16.45%**

Movements in impairment allowance for the year 2017 are as follows:

	2017 AMD'000
Balance at the beginning of the year	**61,694**
Net charge	232,973
Write-offs	(5,221)
Balance at the end of the year	**289,446**

(ii) Concentration of receivables from finance leases

As at 31 December 2018 the Bank has no customers whose balances exceed 10% of the Bank's equity (2017: nil).

(iii) Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in Note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

20. Loans and advances to customers (continued)

(c) Receivables from finance leases (continued)

(iv) Geographical analysis of the finance lease portfolio

The majority of finance leases are with customers located within the Republic of Armenia.

(v) Analysis of collateral

Receivables from finance lease are secured by real estate, equipment and vehicles. The following table provides information on the collateral pledged for the receivables from finance lease classified at stage 3 as of 31 December 2018:

	Maximum	*Fair value of collateral held under the base scenario*						
AMD'000	*exposure to credit risk*	*Real estate*	*Vehicles*	*Other*	*Surplus*	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2018								
Finance lease	438,476	10,600	224,400	–	–	**235,000**	203,476	265,561
Total	**438,476**	**10,600**	**224,400**	–	–	**235,000**	**203,476**	**265,561**

(d) Receivables from factoring

	2018 AMD'000	*2017 AMD'000*
Receivables from factoring	10,720,381	6,752,241
Impairment allowance	(34,132)	(13,504)
	10,686,249	**6,738,737**

As at 31 December 2018 the Bank has one customers whose balances exceed 10% of the Bank's equity (2017: nil).

The gross value of the exposure to this customer as at 31 December 2018 is AMD 9,642,384 thousand.

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables from factoring during the year ended 31 December 2018 is as follows:

Receivables from factoring	*Stage 1 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**6,752,241**	**6,752,241**
New assets originated or purchased	10,720,378	**10,720,378**
Assets repaid	(6,752,242)	**(6,752,242)**
At 31 December 2018	**10,720,377**	**10,720,377**

Receivables from factoring	*Stage 1 AMD'000*	*Total AMD'000*
ECLs as at 1 January 2018	**9,677**	**9,677**
New assets originated or purchased	34,128	**34,128**
Assets repaid	(9,673)	**(9,673)**
At 31 December 2018	**34,132**	**34,132**

Movements in impairment allowance for the year 2017 are as follows:

	2017 AMD'000
Balance at the beginning of the year	**8,382**
Net charge	5,122
Balance at the end of the year	**13,504**

20. Loans and advances to customers (continued)

(d) Receivables from factoring (continued)

(i) Quality analysis of factoring

As at 31 December 2018 the Bank does not have any impaired or overdue amounts receivable from factoring (2017: nil). The balances are classified in Stage 1 and have standard grade.

(ii) Factoring maturities

The maturity of the factoring is presented in Note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from factoring.

(iii) Analysis of collateral

Receivables from factoring are secured by real estate, equipment and vehicles.

21. Debt securities at amortized cost and held-to-maturity investments

Debt securities at amortized cost include:

Held by the Bank	*2018 AMD'000*	*2017 AMD'000*
Debt and other fixed-income instruments		
Government bonds		
- Government bonds of the Republic of Armenia	8,247,384	–
- Government Eurobonds of the Republic of Armenia	13,480,810	–
Corporate bonds		
- Corporate bonds of Armenian companies	787,604	–
	22,515,798	**–**
Pledged under sale and repurchase agreements		
Government Eurobonds of the Republic of Armenia	16,748,372	–
	16,748,372	**–**
Total debt securities at amortized cost	**39,264,170**	**–**
Impairment	(438,707)	–
Total net debt securities at amortized cost	**38,825,463**	**–**

Held-to-maturity investments include:

Held by the Bank	*2018 AMD'000*	*2017 AMD'000*
Debt and other fixed-income instruments		
Government bonds		
- Government bonds of the Republic of Armenia	–	30,734,671
- Government Eurobonds of the Republic of Armenia	–	2,520,028
- Government securities of other countries	–	3,881,887
Corporate bonds		
- Corporate bonds of Armenian companies	–	200,953
	–	**37,337,539**
Pledged under sale and repurchase agreements		
Government Eurobonds of the Republic of Armenia	–	5,968,305
	–	**5,968,305**
Total financial asset at amortized cost	**–**	**43,305,844**
Impairment	–	–
Total net financial asset at amortized cost	**–**	**43,305,844**

21. Debt securities at amortized cost and held-to-maturity investments (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 amortized cost	*Stage 1 AMD'000*	*Total AMD'000*
Gross carrying value as at 1 January 2018	**43,934,780**	**43,934,780**
New assets originated or purchased	12,274,656	**12,274,656**
Assets repaid	(13,633,578)	**(13,633,578)**
Assets sold	(3,311,688)	**(3,311,688)**
At 31 December 2018	**39,264,170**	**39,264,170**

Debt securities at amortized cost	*Stage 1 AMD'000*	*Total AMD'000*
ECLs as at 1 January 2018	**353,270**	**353,270**
New assets originated or purchased	106,335	**106,335**
Assets repaid	(109,625)	**(109,625)**
Assets sold	(26,628)	**(26,628)**
Changes to models and inputs used for ECL calculations	115,355	**115,355**
At 31 December 2018	**438,707**	**438,707**

Information on credit quality of debt securities at amortised cost as at 31 December 2018 is presented in Note 31 (c).

22. Property, equipment and intangible assets

AMD'000	*Leasehold improve-ments*	*Computers and commu-nication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost						
Balance at 1 January 2018	**3,382,399**	**4,507,730**	**1,538,154**	**205,511**	**2,478,033**	**12,111,827**
Additions	1,261,184	1,785,997	835,103	92,619	373,423	**4,348,326**
Disposals/write-offs	(112,528)	(26,450)	(51,270)	–	(281,226)	**(471,474)**
Balance at 31 December 2018	**4,531,055**	**6,267,277**	**2,321,987**	**298,130**	**2,570,230**	**15,988,679**
Depreciation and amortization						
Balance at 1 January 2018	**1,134,931**	**2,351,831**	**397,295**	**74,444**	**1,026,410**	**4,984,911**
Depreciation and amortization for the year	256,008	519,857	109,772	24,266	319,450	**1,229,353**
Disposals/write-offs	(112,528)	(23,762)	(48,406)	–	(281,226)	**(465,922)**
Balance at 31 December 2018	**1,278,411**	**2,847,926**	**458,661**	**98,710**	**1,064,634**	**5,748,342**
Carrying amount						
At 31 December 2018	**3,252,644**	**3,419,351**	**1,863,326**	**199,420**	**1,505,596**	**10,240,337**

22. Property, equipment and intangible assets (continued)

AMD'000	*Leasehold improve-ments*	*Computers and commu-nication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost						
Balance at 1 January 2017	**1,676,965**	**3,300,113**	**609,279**	**256,026**	**2,068,706**	**7,911,089**
Additions	1,705,434	1,252,164	978,598	39	409,327	**4,345,562**
Disposals/write-offs	–	(44,547)	(49,723)	(50,554)	–	**(144,824)**
Balance at 31 December 2017	**3,382,399**	**4,507,730**	**1,538,154**	**205,511**	**2,478,033**	**12,111,827**
Depreciation and amortization						
Balance at 1 January 2017	**917,206**	**2,076,344**	**404,947**	**100,100**	**761,254**	**4,259,851**
Depreciation and amortization for the year	217,725	319,512	40,589	24,861	265,156	**867,843**
Disposals/write-offs	–	(44,025)	(48,241)	(50,517)	–	**(142,783)**
Balance at 31 December 2017	**1,134,931**	**2,351,831**	**397,295**	**74,444**	**1,026,410**	**4,984,911**
Carrying amount						
At 31 December 2017	**2,247,468**	**2,155,899**	**1,140,859**	**131,067**	**1,451,623**	**7,126,916**

23. Other assets

	2018 AMD'000	*2017 AMD'000*
Receivables from unsettled transactions	2,119,304	1,100,692
Restricted accounts with clearing houses	447,384	351,161
Brokerage accounts	244,954	56,458
Impairment allowance	(18,498)	–
Total other financial assets at amortised cost	**2,793,144**	**1,508,311**
Repossessed assets	2,777,623	1,479,534
Prepayments to suppliers	1,880,690	2,162,958
Standard bullions of precious metals	473,701	532,675
Other tax assets	154,476	448,724
Inventories	145,357	126,681
Other	10,243	524,894
Impairment allowance	(148,964)	(126,215)
Total other non-financial assets	**5,293,126**	**5,149,251**
Total other assets	**8,086,270**	**6,657,562**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 is as follows:

Other financial assets	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**6,860**	**2,234**	**43,205**	**52,299**
Assets originated and repaid (net amount)	8,515	(365)	(45,141)	**(36,991)**
Transfers to Stage 2	(209)	209	–	**–**
Transfers to Stage 3	(282)	(1,869)	2,151	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	313,030	**313,030**
Net write-offs/(recoveries)	–	–	(309,840)	**(309,840)**
At 31 December 2018	**14,884**	**209**	**3,405**	**18,498**

During 2018 the Bank transferred impaired receivables due from two counterparties in amount of AMD 390,204 thousand into Stage 3 and further wrote it off.

23. Other assets (continued)

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2018 and 2017 is as follows:

	2018 AMD'000	*2017 AMD'000*
Balance at the beginning of the year	**126,215**	**89,162**
Net charge	22,749	122,938
Write-offs	–	(85,885)
Balance at the end of the year	**148,964**	**126,215**

24. Deposits and balances from banks

	2018 AMD'000	*2017 AMD'000*
Short term loans and term deposits	23,530,588	24,360,593
Liabilities for letters of credit	8,625,734	6,012,307
Loans from CBA (through international programs)	7,078,390	7,389,309
Long and mid-term loans and term deposits from commercial banks	3,421,295	1,924,673
Vostro accounts	420,762	317,119
	43,076,769	**40,004,001**

According to the agreement the CBA provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at 31 December 2018 the Bank has one bank (2017: no bank), whose balances exceed 10% of equity. The gross value of the balance as at 31 December 2018 is AMD 20,643,011 thousand.

25. Amounts payable under repurchase agreements

	2018 AMD'000	*2017 AMD'000*
Amounts due to the banks	17,011,404	6,121,693
	17,011,404	**6,121,693**

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be re-pledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay the purchase price for this collateral.

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

Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognized in their entirety

As at 31 December 2018 transferred financial assets that are not derecognized in their entirety by the Bank are represented by Government securities of Republic of Armenia with fair value of AMD 17,252,875 thousands (2017: Eurobonds of the Government of Republic of Armenia with fair value of AMD 6,323,772 thousand), which were pledged for the payables under repurchase agreements with carrying value of AMD 17,011,404 thousand (2017: AMD 6,121,693 thousands). This transfer does not qualify for derecognition criteria.

26. Current accounts and deposits from customers

	2018 AMD'000	*2017 AMD'000*
Current accounts and demand deposits		
- Individuals	61,904,034	47,010,214
- Legal entities	145,889,262	113,246,453
Term deposits		
- Individuals	133,060,914	133,849,820
- Legal entities	58,231,922	81,064,292
	399,086,132	**375,170,779**

As at 31 December 2018, the Bank maintained customer current accounts and deposit balances of AMD 11,001,416 thousand (2017: AMD 34,222,057 thousand) that serve as collateral for loans and credit related commitments granted by the Bank.

As at 31 December 2018, the Bank has four customers (31 December 2017: two customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2018 is AMD 44,068,684 thousand (31 December 2017: AMD 44,219,735 thousand).

27. Debt securities issued

	2018 AMD'000	*2017 AMD'000*
Promissory notes	4,612,688	9,711,295
Domestic bonds issued	46,233,668	31,221,300
	50,846,356	**40,932,595**

In 2016 Bank placed USD denominated promissory Notes with four Luxembourg-based funds via its investment manager ResponsAbility Investments AG in amount of USD 20,000,000 with maturity in 2021. As at 31 December 2018 carrying value of the promissory Notes is AMD 4,612,688 thousand.

As at December 2018 the Bank has issued and placed debt securities denominated in AMD, USD and EUR with nominal amount of AMD 5 billion, USD 81 million and EUR 3 million respectively. As at December 2018 carrying value of the bonds is AMD 5,090,669 thousand, AMD 39,469,585 thousand and AMD 1,673,414 thousand accordingly.

Bonds issued by the Bank are listed in Armenia Securities Exchange stock exchange.

28. Other borrowed funds and subordinated borrowings

	2018 AMD'000	*2017 AMD'000*
Borrowings from international and other financial institutions	120,913,209	98,128,094
	120,913,209	**98,128,094**
Subordinated borrowings	50,414,125	40,919,768

(a) Concentration of borrowings from international financial institutions

As at 31 December 2018, the Bank has loans from seven financial institutions (31 December 2017: six), whose balances exceed 10% of equity. These balances as at 31 December 2018 are AMD 127,166,023 thousand (31 December 2017: AMD 66,673,975 thousand).

28. Other borrowed funds and subordinated borrowings (continued)

(b) Subordinated borrowing

As at 31 December 2018 subordinated borrowing represents:

- Borrowing received from the ultimate controlling party (AMD 5,924,274 thousand) maturing on 11 January 2021.
- Borrowing received from an unrelated party international financial institution (AMD 25,229,404 thousand) maturing on 11 January 2022.
- Borrowing received from other 3 financial institutions in amount of AMD 9,959,933 thousand maturing on 23 September 2020, in amount of AMD 4,438,653 thousand maturing on 15 January 2026 and in amount of AMD 4,861,861 thousand maturing on 15 January 2027

In case of bankruptcy, the repayment of the subordinated borrowing will be made after repayment in full of all other liabilities of the Bank.

(c) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with all covenants as of 31 December 2018.

29. Other liabilities

	2018 AMD'000	*2017 AMD'000*
Payables to staff	2,944,207	2,173,129
Other payables	758,473	682,810
Other financial liabilities	3,387,171	974,958
Total other financial liabilities	**7,089,851**	**3,830,897**
Deferred income	2,385	10,470
Other taxes payable	301,576	264
Total other non-financial liabilities	**303,961**	**10,734**
Total other liabilities	**7,393,812**	**3,841,631**

30. Share capital and treasury shares

(a) Issued capital and share premium

As at 31 December 2018 the authorized, issued and outstanding share capital comprises 116,564 ordinary shares (2017: 100,273). All shares have a nominal value of AMD 320 thousand and are fully paid.

The shareholders of the Bank as at 31 December 2018 are Ameria Group (CY) (56.60%), EBRD (17.80%), ESPS Holding Limited (11.62%) and ADB (13.98%).

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

(b) Nature and purpose of reserves

Revaluation reserve for financial assets at fair value through other comprehensive income / available-for-sale financial assets

The revaluation reserve assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

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

Dividends declared and paid by the Bank in 2018 amounted to AMD 1,148,000 thousand (2017: AMD 2,176,201 thousand). As of the date of the declaration and payment of dividends, dividends per share amounted to AMD 9,849 (2017: AMD 21,703).

31. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

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

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

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

31. Risk management (continued)

(b) Market risk (continued)

Average effective interest rates

The table below displays average interest rates for interest earning assets and interest bearing liabilities as at 31 December 2018 and 31 December 2017.

	2018 Average interest rate, %			*2017 Average interest rate, %*		
	AMD	*USD*	*Other currencies*	*AMD*	*USD*	*Other currencies*
Interest earning assets						
Financial assets at fair value through profit or loss	9.5%	6.4%	4.9%	9.3%	6.0%	5.1%
Financial assets at fair value through other comprehensive income / available-for-sale financial assets	10.9%	5.0%	5.0%	11.7%	3.8%	−
Loans and advances to banks	7.3%	−	1.0%	12.1%	2.8%	−
Amounts receivable under reverse repurchase agreements	7.0%	3.0%	1.0%	6.4%	2.8%	−
Loans and advances to customers	13.6%	8.6%	7.1%	13.6%	9.0%	7.42%
Receivables from finance leases	13.7%	7.3%	8.4%	14.5%	8.1%	12.0%
Receivables from factoring	14.8%	8.6%	5.2%	14.4%	9.3%	14.0%
Debt instruments at amortized cost/Held-to-maturity investments	9.0%	5.7%	−	9.6%	4.1%	−
Interest bearing liabilities						
Deposits and balances from banks	6.7%	3.3%	0.6%	6.2%	2.4%	1.0%
Amounts payable under repurchase agreements	6.1%	−	−	−	1.5%	−
Current accounts and deposits from customers						
- Term deposits	9.0%	4.1%	3.0%	11.3%	4.6%	3.1%
Debt securities issued	9.7%	5.4%	3.3%	10.0%	5.8%	3.3%
Subordinated borrowings	−	9.4%	6.4%	−	8.5%	−
Other borrowed funds	7.9%	6.1%	3%	8.9%	6.1%	−

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 following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets 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 2018*	*Sensitivity of net interest income 2018 AMD'000*	*Sensitivity of equity and other comprehensive income 2018 AMD'000*
AMD	1.00%	(157,293)	(204,231)
USD	1.00%	(979,402)	(295,706)
EUR	0.20%	(5,143)	(5,875)

31. Risk management (continued)

(b) Market risk (continued)

Currency	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018 AMD'000*	*Sensitivity of equity and other comprehensive income 2018 AMD'000*
AMD	3.50%	334,929	102,116
USD	0.50%	801,454	646,857
EUR	0.01%	32,534	294

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017 AMD'000*	*Sensitivity of equity and other comprehensive income 2017 AMD'000*
AMD	1.60%	(34,197)	(352,276)
USD	1.30%	(162,191)	(173,767)

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017 AMD'000*	*Sensitivity of equity and other comprehensive income 2017 AMD'000*
AMD	3.50%	59,354	770,604
USD	0.50%	92,938	66,833

Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

31. Risk management (continued)

(b) Market risk (continued)

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

	USD AMD'000	*EUR AMD'000*	*Other currencies AMD'000*	*Total AMD'000*
Assets				
Cash and cash equivalents	12,701,409	46,349,316	5,225,918	**64,276,643**
Financial instruments at fair value through profit or loss	1,750,450	80,331	–	**1,830,781**
Financial assets at fair value through other comprehensive income	5,031,472	1,355,683	–	**6,387,155**
Loans and advances to banks	1,328,545	1,273,907	104,764	**2,707,216**
Amounts receivable under reverse repurchase agreements	914,220	2,769,206	–	**3,683,426**
Loans to legal entiites and individuals	380,471,956	49,326,693	1,887,584	**431,686,233**
Receivables from letters of credit	6,393,795	1,874,744	–	**8,268,539**
Receivables from finance leases	1,805,094	155,594	–	**1,960,688**
Receivables from factoring	6,954,432	3,098,930	1,656	**10,055,018**
Debt instruments at amortized cost	13,480,810	–	–	**13,480,810**
Other assets	2,073,597	302,581	825,200	**3,201,378**
Total assets	**432,905,780**	**106,586,985**	**8,045,122**	**547,537,887**
Liabilities				
Deposits and balances from banks	14,904,074	17,877,791	352,463	**33,134,328**
Current accounts and deposits from customers	239,398,240	42,178,044	13,640,743	**295,217,027**
Debt securities issued	44,082,273	1,673,414	–	**45,755,687**
Subordinated borrowings	41,113,611	9,300,514	–	**50,414,125**
Other borrowed funds	71,682,222	37,904,405	–	**109,586,627**
Other liabilities	1,523,212	555,423	23,638	**2,102,273**
Total liabilities	**412,703,632**	**109,489,591**	**14,016,844**	**536,210,067**
Net position	**20,202,148**	**(2,902,606)**	**(5,971,722)**	**11,327,820**
Effect of derivatives	(9,717,582)	3,321,900	6,028,089	**(367,593)**
Net position	**10,484,566**	**419,294**	**56,367**	**10,960,227**

31. Risk management (continued)

(b) Market risk (continued)

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

	USD AMD'000	*EUR AMD'000*	*Other currencies AMD'000*	*Total AMD'000*
Assets				
Cash and cash equivalents	25,075,556	5,331,961	4,107,302	**34,514,819**
Financial instruments at fair value through profit or loss	1,155,334	176,446	–	**1,331,780**
Available-for-sale financial assets	4,525,746	–	–	**4,525,746**
Loans and advances to banks	9,149,220	174,030	11,240	**9,334,490**
Amounts receivable under reverse repurchase agreements	852,065	–	–	**852,065**
Loans to legal entiites and individuals	350,982,331	36,265,542	3,921,191	**391,169,064**
Receivables from letters of credit	3,126,451	1,003,297	–	**4,129,748**
Receivables from finance leases	1,366,918	183,331	–	**1,550,249**
Receivables from factoring	5,403,801	–	707,154	**6,110,955**
Held-to-maturity investments	12,370,220	–	–	**12,370,220**
Other assets	1,530,736	198,305	588,828	**2,317,869**
Total assets	**415,538,378**	**43,332,912**	**9,335,715**	**468,207,005**
Liabilities				
Deposits and balances from banks	24,179,459	5,976,771	53,642	**30,209,872**
Amounts receivable under reverse repurchase agreements	6,121,693	–	–	**6,121,693**
Current accounts and deposits from customers	226,317,577	26,725,025	6,629,080	**259,671,682**
Debt securities issued	36,597,654	1,753,359	–	**38,351,013**
Subordinated borrowings	40,919,768	–	–	**40,919,768**
Other borrowed funds	88,171,140	–	–	**88,171,140**
Other liabilities	573,228	145,807	76,951	**795,986**
Total liabilities	**422,880,519**	**34,600,962**	**6,759,673**	**464,241,154**
Net position	**(7,342,141)**	**8,731,950**	**2,576,042**	**3,965,851**
Effect of derivatives	11,962,384	(8,701,500)	(2,043,075)	**1,217,809**
Net position	**4,620,243**	**30,450**	**532,967**	**5,183,660**

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

	2018			
	Appreciation	*Profit or loss AMD'000*	*Depreciation*	*Profit or loss AMD'000*
AMD against USD	3.50%	(366,960)	3.50%	366,960
AMD against EUR	8.00%	(33,544)	8.00%	33,544

	2017			
	Appreciation	*Profit or loss AMD'000*	*Depreciation*	*Profit or loss AMD'000*
AMD against USD	3.50%	(161,709)	3.50%	161,709
AMD against EUR	13.70%	(4,172)	6.30%	1,918

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

31. Risk management (continued)

(c) Credit risk

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

The credit policy establishes:

- Procedures for review and approval of loan credit applications;
- Methodology for the credit assessment of borrowers (legal entities and individuals);
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing control and monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Loans to individuals credit applications are reviewed by the Retail Lending Subdivisions.

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

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

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

For the analysis of collateral held against loans and advances to customers and concentration of credit risk in respect of loans and advances to customers refer to Note 20.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 33.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. 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. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

31. Risk management (continued)

(c) Credit risk (continued)

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

Stage 1:	When loans are first recognised, the Bank 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 Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the 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.

Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action if counterparty at the end of reporting date fails to do payment of the accrued interest (coupon) and/or principal amount more than 10 business days.

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

PD estimation process

Treasury and interbank relationships

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

Loans and advances to customers

Bucketing

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

- Corporate loans;
- Consumer loans;
- Mortgages loans.

PDs for loans and advances to customers are based on historic information are 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 between overdue categories from the total number at the beginning of the period. In calculation of PDs the Bank considers forward looking macroeconomic parameters that had material impact on the probability of default.

31. Risk management (continued)

(c) Credit risk (continued)

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 Bank 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.

For Stage 3 and POCI financial assets exposure at default is equal to the balance amount of the loans.

EAD is derived from the historical behavior of amortized costs of defaulted loans before the date when the default has occurred.

Loss given default

The Bank 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 and discounted to the date of default using effective interest rate of each loan. 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 Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. The main criterion used by the Bank is the information on overdue days of the loans. The Bank concludes that there is a significant risk in credit risk of the assets, when payments related to that assets 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.
- Significant difficulties in the financial conditions of the borrower.
- Renegotiation of the loan terms resulting from deterioration of the borrower's financial position.
- Deterioration of macroeconomic indicators and their possible effect on the borrower's financial performance.

Forward-looking information and multiple economic scenarios

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

- Consumer Price Index;
- USD/AMD exchange rate;
- RUR/AMD exchange rate;
- Volumes of Export;
- Volumes of Import.

The Bank obtains the forward-looking information from third party sources (Economic Intelligence Unit and IMF World Economic Outlook Database). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

31. Risk management (continued)

(c) Credit risk (continued)

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2019*	*2020*
CPI index				
	Upside	20%	101.251	100.653
	Base case	60%	104.446	103.848
	Downside	20%	107.641	107.043
USD/AMD exchange rate				
	Upside	20%	443.0428	453.4428
	Base case	60%	490.0000	500.4000
	Downside	20%	536.9572	547.3572
USD/RUB exchange rate				
	Upside	20%	9.7833	9.7733
	Base case	60%	7.3200	7.3100
	Downside	20%	4.8567	4.8467
Export, AMD million				
	Upside	20%	2,959.75	2,970.75
	Base case	60%	2,605.00	2,616.00
	Downside	20%	2,250.25	2,261.25
Import, AMD million				
	Upside	20%	5,902.73	6,173.76
	Base case	60%	5,423.54	5,694.56
	Downside	20%	4,944.34	5,215.38

Along with baseline forecasts (with 60% probability of occurrence) listed in the table above, additionally, the Bank uses shocked macroeconomic variables to calculate the ECL rates under the optimistic (with 20% probability of occurrence) and pessimistic (20% probability of occurrence) scenarios. These rates are weighted together with the baseline scenario rates to form final ECL rates.

Credit quality per class of financial assets

The credit quality of financial assets below is managed by the Bank based on external credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on external credit rating system. Credit quality for loans and advances to customers is disclosed in Note 20. Not rated exposures are classified in Standard Grade, unless they are impaired.

	Note		*High grade AMD'000*	*Standard Grade AMD'000*	*Sub-standard Grade AMD'000*	*Impaired AMD'000*	*Total AMD'000*
Loans and advances to banks	18	Stage 1	1,422,722	3,529,310	–	–	**4,952,032**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	60,652	**60,652**
Amounts receivable under repurchase agreement	19	Stage 1	–	6,746,414	–	–	**6,746,414**
Debt investment securities							
- Measured at FVOCI	17	Stage 1	758,160	10,704,823	–	–	**11,462,983**
- Measured at amortised cost	21	Stage 1	–	39,264,170	–	–	**39,264,170**
Total			**2,180,882**	**60,244,717**	**–**	**60,652**	**62,486,251**

The table below shows the mapping of the Bank's grading system and external ratings of the counterparties.

International external rating agency (Moody's) rating	*Internal rating description*	*PD*
Aaa to A3	High grade	0-0.1%
Baa1 to B3	Standard grade	0.1-5%
Caa1 to Ca	Sub-standard grade	5%-35%
C	Impaired	100%

31. Risk management (continued)

(c) Credit risk (continued)

Offsetting financial assets and financial liabilities

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

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

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

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

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

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

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

				Related amounts not offset in the statement of financial position	
AMD'000	***Gross amounts of recognized financial asset/liability***	***Gross amount of recognized financial liability/asset offset in the statement of financial position***	***Net amount of financial assets/liabilities presented in the statement of financial position***	***Financial instruments***	***Net amount***
Types of financial assets/ liabilities					
Amounts receivable under reverse repurchase agreements	6,746,414	–	6,746,414	(6,746,414)	–
Total financial assets	**6,746,414**	**–**	**6,746,414**	**(6,746,414)**	**–**
Amounts payable under repurchase agreements	(17,011,404)	–	(17,011,404)	(17,011,404)	–
Total financial liabilities	**(17,011,404)**	**–**	**(17,011,404)**	**(17,011,404)**	**–**

31. Risk management (continued)

(c) Credit risk (continued)

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

AMD'000	*Gross amounts of recognized financial asset/liability*	*Gross amount of recognized financial liability/asset offset in the statement of financial position*	*Net amount of financial assets/ liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position — Financial instruments*	*Net amount*
Types of financial assets/ liabilities					
Amounts receivable under reverse repurchase agreements	8,675,394	–	8,675,394	(8,675,394)	**–**
Total financial assets	**8,675,394**	**–**	**8,675,394**	**(8,675,394)**	**–**
Amounts payable under repurchase agreements	(6,121,693)	–	(6,121,693)	5,968,305	**(153,388)**
Total financial liabilities	**(6,121,693)**	**–**	**(6,121,693)**	**5,968,305**	**(153,388)**

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- Maintaining liquidity and funding contingency plans;
- Monitoring liquidity ratios against regulatory requirements.

31. Risk management (continued)

(d) Liquidity risk (continued)

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately, except current accounts and on demand deposits from customers which are stated at expected maturities. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount (inflow) outflow*	*Carrying amount*
Financial liabilities								
Deposits and balances from banks	12,893,988	7,048,159	7,088,445	6,888,068	10,129,111	2,022,806	**46,070,577**	43,076,769
Amounts payable under repurchase agreements	17,011,404	–	–	–	–	–	**17,011,404**	17,011,404
Current accounts and deposits from customers	132,004,427	52,833,203	57,320,798	98,873,247	65,516,061	83,553	**406,631,289**	399,086,132
Debt securities issued	358,847	3,210,199	7,862,077	7,600,720	37,289,828	–	**56,321,671**	50,846,356
Subordinated borrowings	1,549,562	1,154,356	1,094,713	2,156,604	49,767,027	9,250,207	**64,972,469**	50,414,125
Other borrowed funds	3,989,012	5,824,499	13,739,728	9,706,765	103,060,455	14,813	**136,335,272**	120,913,209
Other financial liabilities	461,232	3,880,637	3,051,943	–	–	–	**7,393,812**	7,393,812
Net settled derivative liabilities	20,621	–	–	–	–	–	**20,621**	20,621
Total financial liabilities	**168,289,093**	**73,951,053**	**90,157,704**	**125,225,404**	**265,762,482**	**11,371,379**	**734,757,115**	**688,762,428**
Credit related commitments	**43,517,152**	**–**	**–**	**–**	**–**	**–**	**43,517,152**	**43,517,152**

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount (inflow) outflow*	*Carrying amount*
Financial liabilities								
Deposits and balances from banks	10,905,360	677,271	10,493,349	10,083,331	9,401,436	1,515,481	**43,076,228**	40,004,001
Amounts payable under repurchase agreements	6,121,693	–	–	–	–	–	**6,121,693**	6,121,693
Current accounts and deposits from customers	76,528,416	57,389,681	69,099,404	76,715,037	109,446,144	91,239	**389,269,921**	375,170,779
Debt securities issued	396,789	557,928	599,124	10,660,872	32,697,239	–	**44,911,952**	40,932,595
Subordinated borrowings	1,341,759	955,617	839,812	1,679,624	48,369,135	–	**53,185,947**	40,919,768
Other borrowed funds	1,696,247	9,992,480	3,953,724	24,794,550	70,892,191	6,853,935	**118,183,127**	98,128,094
Other financial liabilities	967,739	111,902	2,751,256	–	–	–	**3,830,897**	3,830,897
Net settled derivative liabilities	74,877	–	–	–	–	–	**74,877**	74,877
Gross settled derivative financial instruments								
- Contractual amounts payable	–	(54,473,593)	–	–	–	–	**(54,473,593)**	(611,429)
- Contractual amounts receivable	–	54,480,970	–	–	–	–	**54,480,970**	484,540
Total financial liabilities	**98,032,880**	**69,692,256**	**87,736,669**	**123,933,414**	**270,806,145**	**8,460,655**	**658,662,019**	**605,055,815**
Credit related commitments	**42,899,097**	**–**	**–**	**–**	**–**	**–**	**42,899,097**	**42,899,097**

Included in due to customers in the table above and in the table below are time deposits of individuals. In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. These deposits are classified in the table above in accordance with their stated maturity dates.

31. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	144,353,912	–	–	–	–	–	–	**144,353,912**
Financial instruments at fair value through profit or loss	323,197	139,695	328,036	3,058,640	2,967,442	–	–	**6,817,010**
Financial assets at fair value through other comprehensive income	88,864	155,750	282,669	5,541,529	5,394,171	139,145	–	**11,602,128**
Loans and advances to banks	3,255,612	–	–	–	–	1,691,000	–	**4,946,612**
Amounts receivable under reverse repurchase agreements	6,746,414	–	–	–	–	–	–	**6,746,414**
Loans to legal entities and individuals	26,971,795	23,059,924	121,233,307	242,571,649	106,226,222	–	6,901,292	**526,964,189**
Receivables from letters of credit	43,322	187,342	5,647,337	2,390,538	–	–	–	**8,268,539**
Receivables from finance leases	41,031	71,111	310,303	992,485	436,361	–	172,915	**2,024,206**
Receivables from factoring	430,846	2,833,607	7,421,796	–	–	–	–	**10,686,249**
Debt securities at amortized cost	353,263	592,527	5,620,577	29,066,323	3,192,773	–	–	**38,825,463**
Property, equipment and intangible assets	–	–	–	–	–	10,240,337	–	**10,240,337**
Deferred tax asset	–	–	–	185,898	–	–	–	**185,898**
Other assets	2,375,790	2,777,413	2,008,052	–	–	925,015	–	**8,086,270**
Total assets	**184,984,046**	**29,817,369**	**142,852,077**	**283,807,062**	**118,216,969**	**12,995,497**	**7,074,207**	**779,747,227**
Liabilities								
Financial instruments at fair value through profit or loss	20,621	–	–	–	–	–	–	**20,621**
Amounts payable under repurchase agreements	17,011,404	–	–	–	–	–	–	**17,011,404**
Deposits and balances from banks	12,798,545	6,887,130	13,430,651	8,556,905	1,403,538	–	–	**43,076,769**
Current accounts and deposits from customers	131,252,194	51,539,948	152,505,404	63,718,571	70,015	–	–	**399,086,132**
Debt securities issued	111,329	2,696,535	13,759,546	34,278,946	–	–	–	**50,846,356**
Subordinated borrowings	1,190,128	435,488	16,411	39,521,888	9,250,210	–	–	**50,414,125**
Other borrowed funds	3,465,015	8,061,402	16,176,215	93,195,761	14,816	–	–	**120,913,209**
Current tax liability	–	–	1,086,688	–	–	–	–	**1,086,688**
Provision for commitments	140,163	–	–	–	–	–	–	140,163
Other liabilities	461,232	3,880,637	3,051,943	–	–	–	–	**7,393,812**
Total liabilities	**166,450,631**	**73,501,140**	**200,026,858**	**239,272,071**	**10,738,579**	**–**	**–**	**689,989,279**
Net position	**18,533,415**	**(43,683,771)**	**(57,174,781)**	**44,534,991**	**107,478,390**	**12,995,497**	**7,074,207**	**89,757,948**
Cumulative net position	**18,533,415**	**(25,150,356)**	**(82,325,137)**	**(37,790,146)**	**69,688,244**			

31. Risk management (continued)

(d) Liquidity risk (continued)

The maturity analysis in the table above does not reflect the historical behavior and actual repayment patern of term deposits, as well as loans. Based on the analysis of past history, over 50% of total time deposits maturing in 1 year or less, actually roll over at the maturity. Thereby, the real maturity of those deposits is more than 1 year. These balances are included in amounts due in the period less than 1 year in the table.

Subsequent to the reporting date the Bank has attracted long-term borrowings from international financial organizations in the amount of USD 12,500 thousand (equivalent to AMD 6,046,875 thousand (converted by yearend USD/AMD rate)).

Included in due to customers in the table above and in the table below are time deposits of individuals. In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor (if the depositor will require early repayment of the deposit he/she will lose the accrued interest on that deposit). These deposits are classified in the table above in accordance with their stated maturity dates.

31. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	107,616,368	–	–	–	–	–	–	**107,616,368**
Financial instruments at fair value through profit or loss	116,092	836,773	5,190	2,598,278	411,731	–	–	**3,968,064**
Available-for-sale financial assets	26,735	53,087	229,570	5,553,955	3,918,271	106,460	–	**9,888,078**
Loans and advances to banks	8,727,521	12,177	197,203	419,555	–	1,486,434	–	**10,842,890**
Amounts receivable under reverse repurchase agreements	8,675,394	–	–	–	–	–	–	**8,675,394**
Loans to legal entities and individuals	16,472,285	24,890,862	61,554,619	253,415,202	101,700,101	–	9,277,662	**467,310,731**
Receivables from letters of credit	63,936	474,941	2,732,786	849,826	–	–	–	**4,121,489**
Receivables from finance leases	33,729	46,840	230,635	363,572	499,991	–	295,257	**1,470,024**
Receivables from factoring	1,605,775	3,506,579	1,626,383	–	–	–	–	**6,738,737**
Held-to-maturity investments	250,184	3,726,470	6,283,038	30,779,169	2,266,983	–	–	**43,305,844**
Property, equipment and intangible assets	–	–	–	–	–	7,126,916	–	**7,126,916**
Other assets	1,649,866	677,400	3,442,533	–	–	887,763	–	**6,657,562**
Total assets	**145,237,885**	**34,225,129**	**76,301,957**	**293,979,557**	**108,797,077**	**9,607,573**	**9,572,919**	**677,722,097**
Liabilities								
Financial instruments at fair value through profit or loss	74,877	611,429	–	–	–	–	–	**686,306**
Amounts payable under repurchase agreements	6,121,693	–	–	–	–	–	–	**6,121,693**
Deposits and balances from banks	10,813,773	501,682	20,022,450	7,566,112	1,099,984	–	–	**40,004,001**
Current accounts and deposits from customers	75,395,507	55,390,566	139,347,562	104,963,837	73,307	–	–	**375,170,779**
Debt securities issued	197,081	158,512	9,768,530	30,808,472	–	–	–	**40,932,595**
Subordinated borrowings	1,061,822	395,743	–	39,462,203	–	–	–	**40,919,768**
Other borrowed funds	1,176,595	8,990,221	24,365,684	57,684,363	5,911,231	–	–	**98,128,094**
Current tax liability	–	–	990,256	–	–	–	–	**990,256**
Deferred tax liability	–	–	–	1,025,103	–	–	–	**1,025,103**
Other liabilities	967,739	111,902	2,761,990	–	–	–	–	**3,841,631**
Total liabilities	**95,809,087**	**66,160,055**	**197,256,472**	**241,510,090**	**7,084,522**	**–**	**–**	**607,820,226**
Net position	**49,428,798**	**(31,934,926)**	**(120,954,515)**	**52,469,467**	**101,712,555**	**9,607,573**	**9,572,919**	**69,901,871**
Cumulative net position	**49,428,798**	**17,493,872**	**(103,460,643)**	**(50,991,176)**	**50,721,379**			

31. Risk management (continued)

(d) Liquidity risk (continued)

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities as at 31 December and during the reporting period are as follows:

	2018 ***AMD'000***	***2017*** ***AMD'000***
At 31 December	89%	128%
Average for December	79%	133%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA which is set as not less than 60%.

32. Capital management

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 maximize shareholders' value.

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

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

The Bank 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 Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2018 and 31 December 2017, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2018 and 31 December 2017.

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December:

	2018 ***AMD'000***	***2017*** ***AMD'000***
Tier 1 capital	87,918,917	68,632,980
Tier 2 capital	27,240,435	26,738,055
Total capital	**115,159,352**	**95,371,035**
Total risk weighted assets	**637,670,106**	**534,420,563**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**18.06%**	**17.85%**

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

33. Commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	2018 *AMD'000*	*2017* *AMD'000*
Contracted amount		
Loan and credit line commitments	18,237,090	19,807,875
Credit card commitments	13,602,109	9,245,979
Financial guarantees and letters of credit	5,542,370	5,812,810
Non-financial guarantees	2,362,080	2,370,848
Undrawn overdraft facilities	3,773,503	5,661,585
	43,517,152	**42,899,097**
Impairment allowance	**(140,163)**	**–**
Deposits held as security against letters of credit	**90,379**	**77,158**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

An analysis of changes in the ECLs during the year ended 31 December 2018 is as follows:

Guarantees and letters of credit	*Stage 1* *AMD'000*	*Stage 2* *AMD'000*	*Stage 3* *AMD'000*	*Total* *AMD'000*
ECL allowance as at 1 January 2018	**20,556**	**7,347**	**77,174**	**105,077**
New assets originated or purchased	18,713	–	–	**18,713**
Expired exposures	(19,587)	(7,347)	–	**(26,934)**
Write-offs	–	–	(77,173)	**(77,173)**
Changes to models and inputs used for ECL calculations	(1,260)	–	–	**(1,260)**
At 31 December 2018	**18,422**	**–**	**1**	**18,423**

Loan and credit line commitments	*Stage 1* *AMD'000*	*Stage 2* *AMD'000*	*Stage 3* *AMD'000*	*Total* *AMD'000*
ECL allowance as at 1 January 2018	**107,025**	**9,695**	**440**	**117,160**
New assets originated or purchased	39,173	–	–	**39,173**
Expired exposures	(31,353)	(9,695)	(440)	**(41,488)**
Transfers to Stage 2	(14,002)	14,002	–	**–**
Transfers to Stage 3	–	(14,002)	14,002	**–**
Changes to models and inputs used for ECL calculations	(30,375)	–	–	**(30,375)**
Write offs and recoveries	–	–	–	**–**
At 31 December 2018	**70,468**	**–**	**14,002**	**84,470**

33. Commitments (continued)

Credit card commitments	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**18,516**	**40**	**5,570**	**24,126**
New assets originated or purchased	13,055	–	–	**13,055**
Assets repaid	(8,441)	(40)	(5,570)	**(14,051)**
Transfers to Stage 2	(380)	380	–	**–**
Transfers to Stage 3	–	(326)	326	**–**
Changes to models and inputs used for ECL calculations	(2,309)	–	–	**(2,309)**
At 31 December 2018	**20,441**	**54**	**326**	**20,821**

Undrawn overdraft facilities	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
ECL allowance as at 1 January 2018	**14,611**	**–**	**1,311**	**15,922**
New assets originated or purchased	9,573	–	–	**9,573**
Assets repaid	(7,125)	–	(1,311)	**(8,436)**
Transfers to Stage 2	(5,701)	5,701	–	**–**
Changes to models and inputs used for ECL calculations	(610)	–	–	**(610)**
At 31 December 2018	**10,748**	**5,701**	**–**	**16,449**

34. Operating leases

(a) Bank as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2018 AMD'000	*2017 AMD'000*
Less than 1 year	1,357,685	1,419,525
Between 1 and 5 years	1,121,854	1,285,131
More than 5 years	283,497	361,451
	2,763,036	**3,066,107**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. As at 31 December 2018 operating leases include non-cancellable rentals to a related party amounting to AMD 857,734 thousand (2017: AMD 757,215 thousand).

35. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. As of 31 December 2018 the Bank has up to AMD 16,875,483 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of accidents on the Bank's property or related to operations.

(b) Litigation

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

35. Contingencies (continued)

(c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 the Republic of Armenia that are substantially 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 the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

36. Related party transactions

(a) Control relationships

The Bank’s parent company is Ameria Group (CY) Limited, which owns 56.6% of the share capital as at 31 December 2018.

The ultimate controler and final beneficiary owner of the Bank is Mr. Ruben Vardanyan.

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

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

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2018 AMD’000	*2017 AMD’000*
Short-term employee benefits	2,157,647	1,972,902

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

	2018 AMD’000	*Average interest rate, %*	*2017 AMD’000*	*Average interest rate, %*
Statement of financial position				
Loans issued	1,273,721	7.79%	1,253,917	8.02%
Other assets	1,832	0.00%	1,893	0.00%
Deposits received	460,725	5.74%	674,074	5.70%
Subordinated debt	5,924,274	6.00%	5,928,587	6.00%
Other liabilities	1,478,022	0.00%	1,077,633	0.00%
Guarantees	–	–	16,944	0.00%

The loans and guarantees are in Armenian Drams and US Dollars and repayable by 2027.

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

	2018 AMD’000	*2017 AMD’000*
Profit or loss		
Interest income	96,310	66,568
Interest expense	(361,765)	(141,954)

36. Related party transactions (continued)

(c) Transactions with other related parties

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

	Parent company		*Shareholder with significant influence*		*Subsidiaries of the immediate parent company*		*Other entities under common control and other related parties*		
Statement of financial position	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***Total AMD'000***
Assets									
Loans and advances to customers	–	–	–	–	–	–	4,061,715	6.66%	**4,061,715**
Other asset	–	–	62,619	–	879,324	–	–	–	**941,943**
Liabilities									
Current accounts and deposits from customers									
- Current accounts and demand deposits	20,562	0.00%	62,690	0.00%	1,085,613	0.00%	1,376,258	0.00%	**2,545,123**
- Term deposits	–	–	–	–	659,326	4.00%	77,155	6.47%	**736,481**
Other borrowed funds	–	–	21,215,696	6.04%	–	–	–	–	**21,215,,696**
Other liabilities	–	–	13,209	0.00%	–	–	–	–	**13,209**
Items not recognised in the statement of financial position									
Guarantees received	–	–	13,323,384	1.05%	–	–	–	–	**13,323,384**
Profit (loss)									
Interest income	–	–	–	–	–	–	575,789	–	**575,789**
Interest expense	–	–	(1,384,459)	–	(21,291)	–	(337,771)	–	**(1,743,521)**
Operating lease expenses	–	–	–	–	(1,627,177)	–	–	–	**(1,627,177)**

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

	Parent company		*Shareholder with significant influence*		*Subsidiaries of the immediate parent company*		*Other entities under common control and other related parties*		
Statement of financial position	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***Total AMD'000***
Assets									
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	645,001	–	**645,001**
Loans and advances to customers	–	–	–	–	–	–	34,916,760	13.27%	**34,916,760**
Other asset	–	–	–	–	795,016	–	3,596	–	**798,612**
Liabilities									
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	611,430	–	**611,430**
Current accounts and deposits from customers									
- Current accounts and demand deposits	666,258	0.00%	1,172,117	0.00%	200,264	0.00%	1,980,570	0.00%	**4,019,209**
- Term deposits	–	–	–	–	513,431	4.66%	32,590,571	12.87%	**33,104,002**
Other borrowed funds	–	–	9,890,487	8.90%	–	–	–	–	**9,890,487**
Other liabilities	–	–	10,316	0.00%	–	–	–	–	**10,316**
Items not recognised in the statement of financial position									
Guarantees given	–	–	–	–	–	–	20,304	0.00%	**20,304**
Guarantees received	–	–	11,131,525	1.50%	–	–	–	–	**11,131,525**
Profit (loss)									
Interest income	–	–	1,371	–	–	–	4,360,124	–	**4,361,495**
Interest expense	–	–	(1,135,191)	–	(21,325)	–	(3,864,603)	–	**(5,021,119)**
Other expense	–	–	–	–	(17,055)	–	(98,978)	–	**(116,033)**

37. Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The estimated fair values of all financial instruments except for loans and advances to customers, debt securities at amortised cost and debt securities issued approximate their carrying values. The fair value of these instruments are categorized in Level 3 fair value hierarchy, except cash and cash equivalents that are categorized in Level 1 fair value hierarchy.

The table below sets out the carrying amounts and fair values of loans and advances to customers, debt instruments at amortized cost and domestic bonds issued as at 31 December 2018:

	Carrying amount AMD'000	*Fair value AMD'000*	*Unrealized gain/(loss) AMD'000*
Loans and advances to customers	547,943,183	538,682,849	(9,260,334)
Debt instruments and amortized cost	38,825,463	40,193,704	1,368,241
Domestic bonds issued	46,233,668	46,536,937	(303,269)
Total	**633,002,314**	**625,413,490**	**(8,195,362)**

The table below sets out the carrying amounts and fair values of loans and advances to customers, held-to-maturity investments and domestic bonds issued as at 31 December 2017:

	Carrying amount AMD'000	*Fair value AMD'000*	*Unrealized Gain/(loss) AMD'000*
Loans and advances to customers	479,640,981	474,361,415	(5,279,566)
Held-to-maturity investments	43,305,844	44,680,299	1,374,455
Domestic bonds issued	31,221,300	31,493,983	(272,683)
Total	**554,168,125**	**550,535,697**	**(4,177,794)**

The following assumptions are used by management to estimate the fair values of financial instruments:

- Discount rates of 3.5% and 11.6-16.4% are used for discounting future cash flows from loans and advances to banks and loans and advances to customers, respectively;
- Discount rates of 5.5-12% are used for discounting future cash flows for liabilities.

37. Financial assets and liabilities: fair values and accounting classifications (continued)

(b) Fair value hierarchy

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

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

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

AMD'000	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets and liabilities measured at fair value				
Debt securities at FVTPL				
- Debt and other fixed-income instruments	–	6,691,791	–	**6,691,791**
- Derivative assets	–	125,219	–	**125,219**
- Derivative liabilities	–	(20,621)	–	**(20,621)**
Financial assets at fair value through other comprehensive income				
- Debt instruments	1,273,589	10,189,394	–	**11,462,983**
	1,273,589	**16,985,783**	**–**	**18,259,372**
Assets for which fair values are disclosed				
Loans to customers measured at amortised cost	–	–	538,682,849	**538,682,849**
Debt securities at amortised cost	–	40,193,704	–	**40,193,704**
Domestic bonds issued	–	46,536,937	–	**46,536,937**
	–	**86,730,641**	**538,682,849**	**625,413,490**

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

AMD'000	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Debt and other fixed-income instruments	–	3,015,199	–	**3,015,199**
- Derivative assets	–	952,865	–	**952,865**
- Derivative liabilities	–	(686,306)	–	**(686,306)**
Available-for-sale financial assets				
- Debt instruments	2,942,639	6,838,981	–	**9,781,620**
	2,942,639	**10,120,739**	**–**	**13,063,378**
Assets for which fair values are disclosed				
Loans and advances to customers	–	–	474,361,415	**474,361,415**
Held-to-maturity investments	3,881,042	40,799,257	–	**44,680,299**
Domestic bonds issued	–	31,493,983	–	**31,493,983**
	3,881,042	**72,293,240**	**474,361,415**	**550,535,697**

37. Financial assets and liabilities: fair values and accounting classifications (continued)

(b) Fair value hierarchy (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets at fair value through other comprehensive income / available-for-sale financial assets

Investment securities measured at fair value through other comprehensive income are valued using a valuation technique or pricing models primarily consist of Armenian Government debt securities. These securities are valued using yield curves which incorporate data observable in the market and published by CBA.

38. Changes in liabilities arising from financing activities

AMD'000	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2016	**18,124,500**	**102,735,039**	**40,811,255**	**161,670,794**
Proceeds from issue	22,504,610	67,496,831	−	**90,001,441**
Redemption	−	(72,097,598)	−	**(72,097,598)**
Foreign currency translation	82,042	29,467	(4,111)	**107,398**
Other	221,443	(35,645)	112,624	**298,422**
Carrying amount at 31 December 2017	**40,932,595**	**98,128,094**	**40,919,768**	**179,980,457**
Proceeds from issue	24,855,545	109,241,838	9,290,363	**143,387,746**
Redemption	(12,849,554)	(85,915,500)	−	**(98,765,054)**
Foreign currency translation	(96,733)	(552,218)	22,123	**(626,828)**
Other	(1,995,497)	10,995	181,871	**(1,802,631)**
Carrying amount at 31 December 2018	**50,846,356**	**120,913,209**	**50,414,125**	**222,173,690**

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

39. Events after reporting period

On 4 March 2019 ESPS Holding Limited purchased in full additionally issued 146 shares of the Bank with nominal value of AMD 320,000 per share for AMD 599,687 per share. As the result of the transaction the shareholding structure of the Bank changed as follows: Ameria Group (CY) (56.53%), EBRD (17.78%), ESPS Holding Limited (11.73%) and ADB (13.96%).