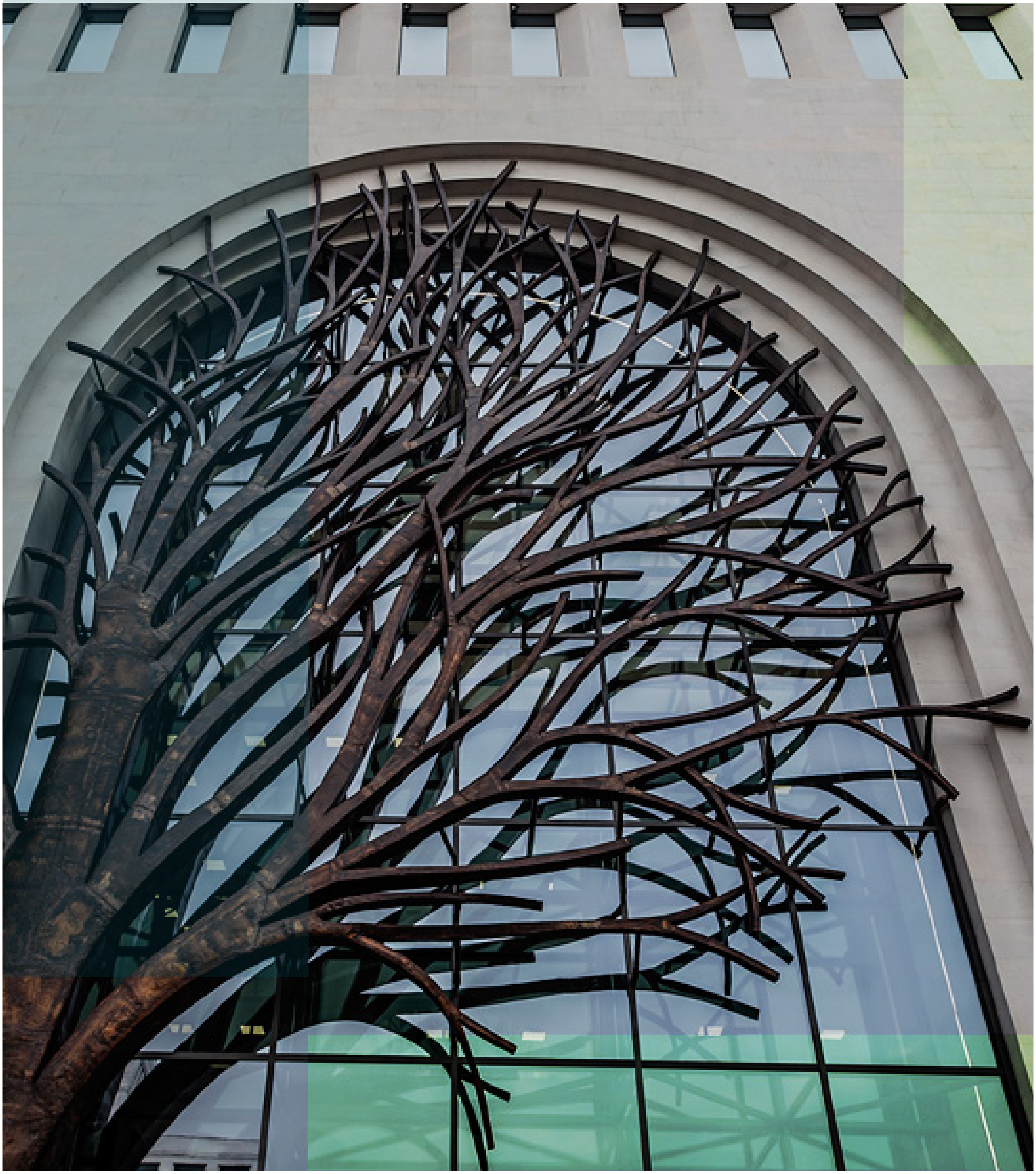


AMERIABANK

ANNUAL REPORT 2018

CONTENTS

Leader of Armenian Banking Sector by

Assets
AMD 779,747 mn
15.7%
share in BS

Equity
AMD 89,758 mn
11.6%
share in BS

Profit
AMD 10,502 mn
15.7%
share in BS

Net Loans
AMD 547,943 mn
17.8%
share in BS

Liabilities
AMD 689,989 mn
16.5%
share in BS

BUSINESS REVIEW

CHAIRMAN'S STATEMENT

I am pleased to report that 2018 has been yet another successful year with significant achievements both financially and strategically, despite political and macroeconomic uncertainties throughout the whole year. We maintained our leadership position in the market, being the first by all key financial indicators and ending another financial year with double-digit growth of net profit. Efficiency and profitability remain key focus areas of our strategy, and we are happy to share with you our success in this regard.

It was a truly pivotal and challenging year for Armenia both politically and economically. The political movement that started in spring with peaceful street protests and demonstrations eventually led to the Velvet Revolution and change of power. We reached the end of 2018 with a totally different political environment and positive expectations for the future of the country. The overall economic policy of the new government is declared to be more liberal, focused on improving business environment and regulatory framework, ensuring favorable tax regime and encouraging entrepreneurship and FDI inflow. Political changes have not triggered any significant shifts in foreign policy, and Armenia is committed to continuing its balanced foreign policy and successful complementary partnership with both EU and EEU.

Despite political turbulences and prevailing uncertainty in 2018, economy performed well with GDP growth of 5.2% for 2018 and end of period inflation of 1.8%. High growth of exports and imports continued in 2018 as well, with Armenian Dram exchange rates remaining stable throughout the year. Both public and private institutions demonstrated resilience and robustness with no disruptions or downturn during and after revolution.

The year was quite challenging for the banking sector as well, with continued intense competition, relatively higher market and credit risks, decreasing interest rates in the local market and increasing interest rates in the international markets. In the environment of increased risk and economic uncertainty, Ameriabank managed to register substantial growth of loan portfolio, at the same time maintaining sound asset quality. Notwithstanding the pressure on interest margins, we managed to significantly improve profitability and report a solid net interest margin.

In line with our mid-term strategic goal of IPO, our key focus areas remained efficiency, market leadership and diversification. We initiated large strategic projects aimed at increasing efficiency, streamlining the decision-making process, enhancing service channels and platforms and increasing distance banking capabilities. These projects have already greatly contributed to overall efficiency and growth of our business this year, and we expect further positive results next year.

There's no doubt, that banking industry has entered a digital transformation era, and the success of any bank now depends on its digital competence. We have launched a comprehensive digital transformation project, aiming to be the leader in the market by innovative digital solutions, enhance customer experience and improve operational efficiency. We have also initiated significant structural changes both at management level and in business lines, which are expected to support our digital agenda and help us become a more agile organization in this rapidly changing world.

We are committed to continuing our strategy with more ambitious mid-term targets of growth and efficiency. We aim to be the absolute leader of the market not only by size and financial performance, but also by customer experience and service quality, which will be key focus areas for us in 2019. Our customers can be assured that their loyalty and trust are highly appreciated and will be rewarded with best-in-class products and services.

Our strong team and corporate culture have been undoubtedly the cornerstone of our success and business growth. We can proudly state that today we have one of the most talented teams in the market, capable of delivering truly high-reaching results and leading the bank to a new level of excellence. On behalf of the Board I would like to thank the team for their hard work and devotion in 2018, as well as for delivering all strategic targets successfully. I am confident that our joint efforts will enable us to achieve all our ambitious goals and targets in near future.

And last, but not least, I would like to express my gratitude to our partners and investors for their trust and invaluable support.

Andrew Mkrtchyan
Chairman of the Board of Directors

BUSINESS REVIEW

CHIEF EXECUTIVE'S REVIEW

2018 has been another year of strong financial performance, reinforcing Ameriabank's leading position in the Armenian banking sector. In 2018 we also successfully delivered on our strategic targets of increased efficiency, enhanced service channels and improved customer experience. As a strategic priority, we successfully launched a comprehensive digitalization project with significant achievements already in 2018 and more full-scale projects yet to be delivered. We also initiated comprehensive structural changes deriving from our revised business model and long-term digital agenda. Overall, 2018 was a landmark year for setting the foundation of our ambitious mid-term strategy and business plan.

2018 was a crucial year for the country, possibly marking a new stage in Armenia's modern history. The peaceful Velvet Revolution was unanimously perceived by the international community as a manifestation of democratic values and the power of civil society. Notwithstanding the overall positive outcome of all political events in 2018, the latter were a real challenge and risk for all businesses and banking sector in particular. Thanks to the soundness and resilience of the financial system, the political turbulences and following uncertainty did not trigger any disruption of financial intermediation, capital flight or exchange rate hikes. The banking system not only withstood all these challenges, but reported solid growth, with total assets growing by c. 14% YoY and reaching AMD 5 tn.

Despite objective factors that could potentially limit growth opportunities, Ameriabank registered robust growth in all business lines. Our net total loans and advances to customers reached AMD 548 bn, having grown by more than 14% YoY, with record-high growth of retail loans – by 53% YoY, in line with our strategic target of increasing retail's share in total loan portfolio.

In 2018 we reported further significant improvement of profitability and efficiency indicators. We closed the financial year with net profit of AMD 10.5 bn, an increase by 37% YoY. Our 12-month ROE was 12.6%, an improvement by 1.2 pp YoY, which is higher than the market average by 4.1 pp. Our strong profitability was fueled by solid growth of both interest and non-interest incomes. Our net interest income increased by 49% YoY reaching AMD 27.3 bn, while net non-interest income increased by 29%, reaching AMD 9.5 bn, thanks to significant growth of both investment banking/advisory services and core business activities. As a result of decrease of cost of funding and increase of asset-liability spread our NIM increased by 1.3 pp to reach 4.8%. Aiming to diversify our funding sources and lower the cost of funding, we actively continued bond issuance program in the local market, currently being the largest bond issuer with more than 29% market share and USD 95.6 mn total bonds outstanding.

Our strong financial performance and sound asset quality led to highest possible credit ratings for a company operating in Armenia, as we were assigned B1/NP local-currency and B2/NP foreign currency bank deposit ratings with positive outlook by Moody's and B+/B long and short-term issuer credit ratings with stable outlook by S&P, the latter being the first-ever rating of an Armenian entity assigned by S&P.

2018 was marked with significant financial deals, too. We signed a EUR 40 mn loan agreement with FMO (The Dutch development bank), with proceeds to be used for financing renewable energy and energy efficiency projects in Armenia. Another USD 20 mn loan agreement aimed at financing renewable energy and green projects was signed with EBRD (the European Bank for Reconstruction and Development). Aiming to support SME growth in Armenia and enhance our lending capacities, we signed EUR 25 mn and USD 15 mn loan agreements with EDB (the Eurasian Development Bank) and BSTDB (the Black Sea Trade and Development Bank), respectively. In Q4 we entered into EUR 16.6 mn long-term subordinated loan agreements with Global Climate Partnership Fund (GCPF) and funds managed by responsAbility Investments AG, strengthening our regulatory capital position and ensuring sufficient buffers for further expansion.

In 2018 we added another reputable award to our list of trophies – the Euromoney Award for Excellence 2018 as the Best Bank in Armenia, which was the recognition of Ameriabank's leadership in the market, sustainable growth and push for digital transformation.

The comprehensive digitalization and distance channel enhancement projects initiated in 2017 delivered significant positive results already in 2018, with the number of online banking transactions increasing by 59%, the number of payment terminal transactions growing by more than 13 times and the total number of customers increasing more than 2 times. Following our long-term digital agenda, we initiated structural changes and significant investments in infrastructure, which, starting from next year, will greatly support our digital transformation and enhance our distance banking capabilities.

We have set quite ambitious mid-term strategic targets, aiming to maintain strong growth and further improve efficiency and profitability at the same time. Comprehensive digital transformation, focus on customer experience and continuous diversification of business will be the main drivers of our mid-term strategy, implying serious technological and organizational challenges. With the talent and dedication of our team, and the achievements we have had together so far, I remain confident that we will be able to overcome all challenges and reach even the most ambitious strategic goals.

Artak Hanesyan
Chairman of the Management Board-
General Director

DEVELOPMENTS AND ACHIEVEMENTS IN 2018

- B1/NP rating with positive outlook by **Moody's**
- B+/B rating with stable outlook by **S&P**
- USD 30 mn equivalent equity investment agreement with **ADB** to strengthen Ameriabank and further promote financial inclusion in the country.*
- Subordinated debt agreements:
  - GCPF – EUR 8.6 mn
  - **responsAbility** – EUR 8.0 mn
- USD 20 mn loan agreement with **EBRD,** of which USD 12.5 mn was issued under Green Economy Financing Facility (GEFF). Ameriabank is EBRD's first partner in Armenia to receive a loan under GEFF, AMD loan equivalent to USD 7.5 mn dedicated to MSME financing.
- EUR 40 mn loan agreement with **FMO** to finance renewable energy and energy efficiency projects, as well as young and female entrepreneurs in Armenia.
- USD 15 mn loan agreement with **BSTDB** for financing small and medium-sized businesses (SME) in Armenia.
- USD 11.5 mn senior loan agreement with **Symbiotics'** Micro, Small & Medium Enterprises Bond issuance program, with a possibility to increase the amount by an additional USD 10 mn in hard or local currency.
- EUR 25 mn credit line agreement with **EDB** to develop small and medium-sized business sector in Armenia.

* The first equity investment of ADB in Armenia

Ameriabank's Road to Success

2017
Absolute leader in RA by key financial indicators

2015
USD 30 mn **equity investment by EBRD.***
USD 50 mn **sub. debt from IFC.***
1st published international credit rating (**B+ rating** with Stable Outlook by Fitch)

2011-2014
Became **the leading bank in RA.**
Strategic decision to become a universal bank, significantly increasing Retail Banking share

2010
1st banking merger deal in RA: Ameriabank and Cascade Bank signed merger deal

2008-2009
Armimpexbank **rebranded to Ameriabank**.
Unprecedented growth amid global crisis

2007
1st bank acquisition deal in RA: acquired shares of Armimpexbank (one of the oldest yet smallest banks in RA)

2000-2007
Ameria became a group of companies with expanded business lines: Legal and Tax Advisory, Business Advisory, Investment Banking, Asset Management

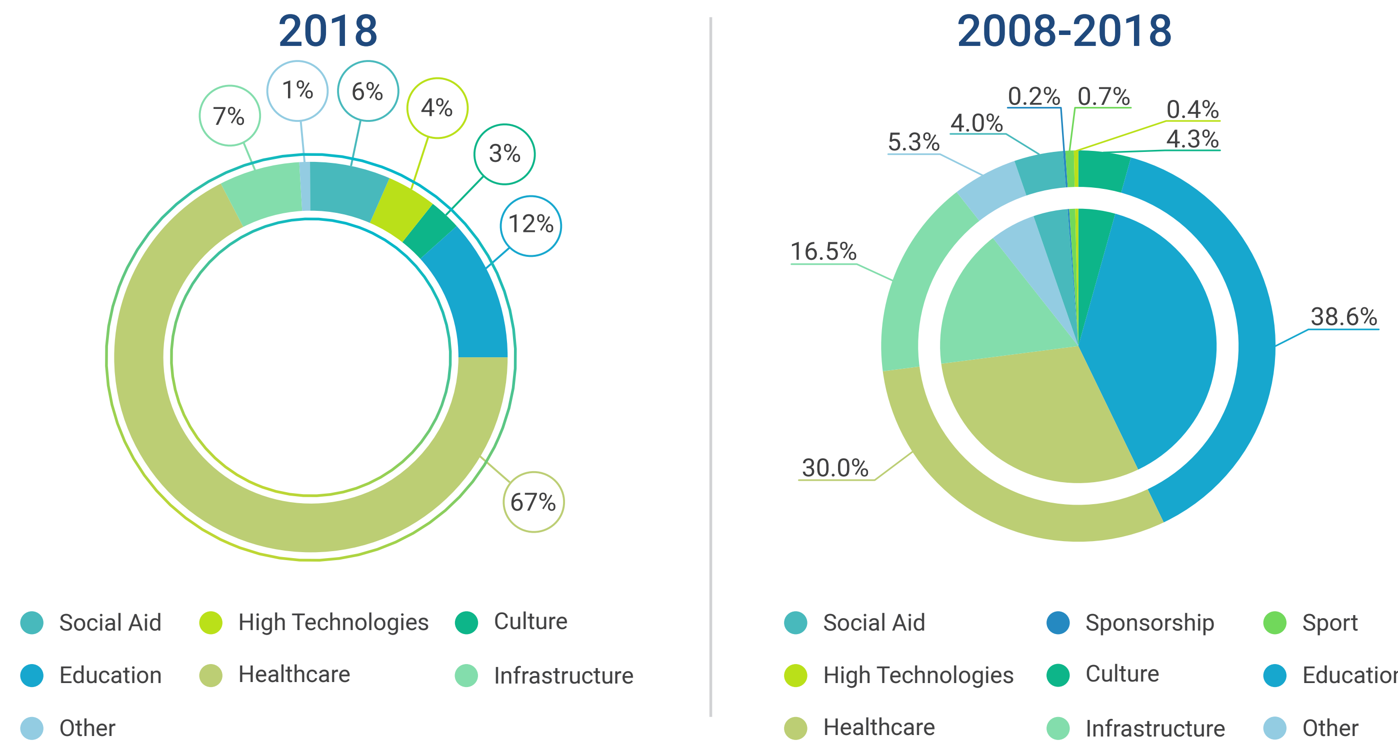
1998
Ameria Advisory was founded by local and Diaspora investors

* The largest deal with an FI in Armenia
** The first equity investment of ADB in Armenia

Being fully dedicated to "Improving the quality of life", Ameriabank is striving to return to the community through implemented charity and social projects in various spheres, particularly in education, healthcare, culture, and infrastructural development. Overall, the Bank has invested AMD 1.1 bn into CSR since 2007. A greater part of this budget was channeled into education – AMD 412mn, and healthcare – AMD 320 mn. Additionally, AMD 200 mn was raised from clients and staff through 5 charity auctions and regular allocations to the special charity account.

In 2018 Ameriabank continued its responsible approach to social problems via sustainable activities extending beyond business practices to sharing professional knowledge with the younger generation and business community, financing educational programs, supporting children's healthcare and welfare, as well as undertaking community development initiatives. AMD 94.2 mn was allocated for CSR purposes during the reporting year, a significant part of which was donated to healthcare (AMD 64 mn).

Corporate Responsibility Areas of Focus



The Bank also actively motivates the staff to be engaged in different CSR activities to enlarge the impact and ensure a better connection with the society. Moreover, staff is also involved in training of young professionals and 177 talented youngsters took courses or did internship at the Bank in 2018.

Current CSR policy also assumes application of green and environmentally friendly policies in everyday operations. The Bank is actively working to minimize its footprint on the Planet, reducing use of energy, paper, water, and applying reusable materials where possible. In 2018 Ameriabank moved to Kamar business center that is the only BREEAM-certified building in Armenia. It is 100% disabled accessible, is smoke free, is 35% more energy-efficient and is built from environment-friendly materials only.

The Corporate Social Responsibility Committee of the Bank consists of 7 members from 7 different departments. It is the job of the Committee to ensure that CSR decisions are well-founded and consistent with the policy and corporate values of the Bank.

BUSINESS REVIEW
GLOBAL PARTNERS

Ameriabank's IFI partners and the aggregate amounts of transactions since cooperation start date

Partner	Since	Amount
IFC International Finance Corporation	since 2009	USD 115 mn, of which USD 50 mn sub. debt
FMO	since 2009	USD 130 mn, of which USD 20 mn sub. debt
KFW DEG	since 2009	USD 55 mn
European Bank for Reconstruction and Development	since 2010	USD 170 mn, of which USD 40 mn equity
Eurasian Development Bank	since 2010	USD 60 mn
ADB Asian Development Bank	since 2011	USD 77 mn, of which USD 30 mn equity
Proparco	since 2013	USD 35 mn
OeEB	since 2013	USD 25 mn
Black Sea Trade & Development Bank	since 2014	USD 25 mn
OFID	since 2015	USD 20 mn
responsAbility Renewable Energy Holding	since 2016	USD 29 mn, of which USD 9 mn sub. debt
Global Climate Partnership Fund	since 2016	USD 40 mn, of which USD 10 mn sub. debt
symbiotics	since 2018	USD 11.5 mn

Note: Information on trade finance facilities is presented in Corporate Banking section (page 53)

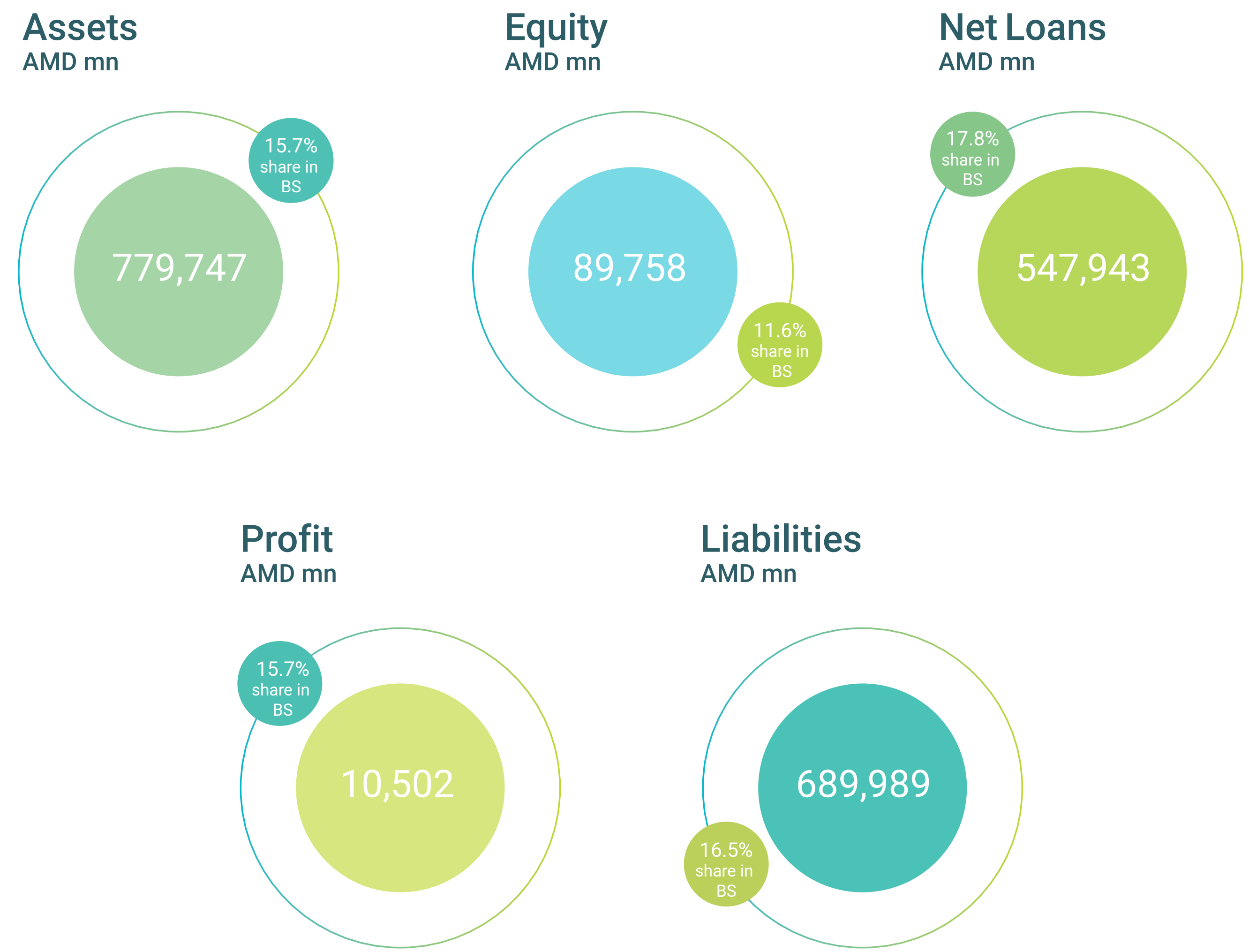
Best Bank in Armenia

Numerous awards and recognitions from global institutions, agencies and IFIs in trade finance, investment banking, capital markets and custody services.

MAIN AWARDS AND ACHIEVEMENTS IN 2018

- Euromoney Award for Excellence 2018 as Best Bank in Armenia.
- Best Investment Bank in Armenia 2018 by Global Finance
- Most Active FXT User by Thomson Reuters
- Two Nominations of "Best Member 2017" awards of NASDAQ OMX Armenia* and Central Depository of Armenia
- Trade Finance 2018 award for excellent cooperation in trade finance, as well as high-quality and effective business partnership with Commerzbank
- TFP Award 2018: Leading Partner Bank in Armenia from ADB
- Best Issuing Bank Partner in the Caucasus and Central Asia 2017 by IFC
- Commerzbank's STP Award 2017 for Excellent Quality in international payments for the 10th time

*Armenian Stock Exchange



Ameriabank is the largest financial institution in Armenia and has been the leading bank by key financial indicators since 2014: assets, loans, liabilities, equity. Since 2017 Ameriabank has also been the first by net profit, achieving absolute leadership in the market. Ameriabank is the first Armenian bank to cross the landmark of **USD 1 bn** in assets in the Republic of Armenia. Ameriabank has been the **market champion** by growth rates with about **20% 5-yr CAGR** by all key financial metrics.

As of year-end 2018, Ameriabank is an **indisputable leader in Armenian banking sector** by all key financial indicators.

In 2018 the Bank's loan portfolio (including finance lease and factoring) totaled AMD 547.9 bn, and liabilities totaled AMD 690.0 bn. The equity of the Bank increased by 28.4% to reach AMD 89.8 bn. As of year-end 2018 the Bank's net profit was AMD 10.5 bn.

BUSINESS REVIEW
DEVELOPMENT OF TECHNOLOGIES AND INFRASTRUCTURE

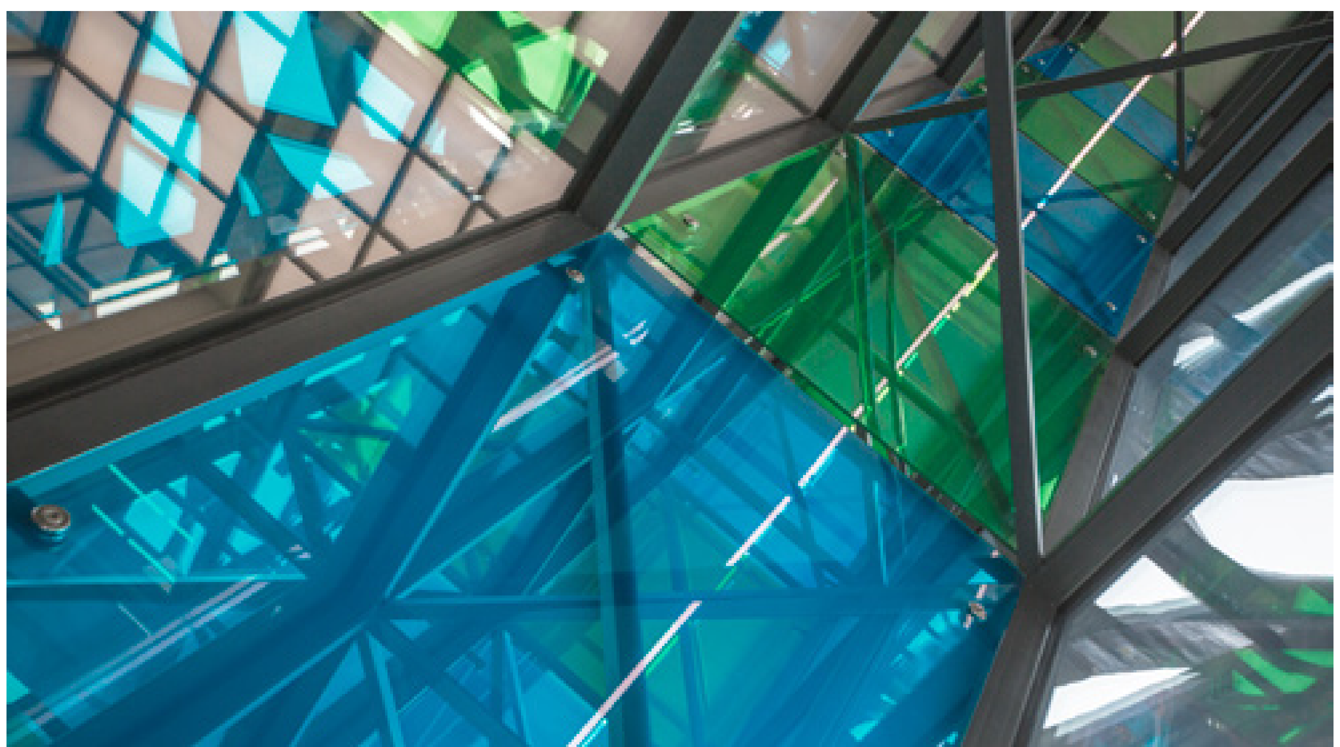
DEVELOPMENT OF TECHNOLOGIES

Ameriabank is constantly working towards advancing its client service and providing comfort to its clients. Innovation is and has always been firmly anchored in the mission of the Bank as a driving force for development. The Bank treats its clients as partners and strives to offer them innovative, all-embracing and high quality financial solutions – both to individuals and businesses in local and regional markets alike. The Bank continuously invests in financial research & development to make banking operations simpler and easier, to optimize and personalize user experience through distance banking services, in particular digital banking, and to match the complexity of clients' needs with tailor-made financing solutions, namely; special offers for workers of certain industries, referral rewards, special rates for loans for purchasing energy-efficient technology, etc.

While implementing innovative policies, Ameriabank promotes the following principles:

- Innovation policy aligned with the strategic goals, ongoing development and progress of the Bank.
- Orientation towards the best international practices, constant upgrading of technologies and implementation of modern banking solutions.
- Client-oriented approach and advanced banking solutions tailored to client needs.

The synergy of these principles in the technological development expeditiously spurred the Bank into a leading position in the Armenian banking system. Currently Ameriabank is a major financial institution standing by its clients as a reliable partner ready to overcome new challenges and keep the pace of international trends and developments, contriving innovative solutions and implementing cutting-edge technologies.



CUSTOMER EXPERIENCE IMPROVEMENTS

During 2018 customer migration to digital channels continued at high pace with significant percentage of our simple customer needs now met online. Ameriabank continues to invest in the recommendations of its customers to improve processes and the way customers interact with the Bank. Ameriabank has listened to its customers and followed our general digital transformation strategy to enable customers to get loans and open new accounts via remote connection. Delivering an improved customer experience remains number one priority for the Bank.

In 2018, Ameriabank implemented a series of internal and external improvements in order to make the Bank's operations and core non-banking services more accessible, secure and comfortable to use. During 2018 the Bank launched the following digitally enabled services: retail online lending, SME online lending and online retail customer onboarding services. In 2018 Ameriabank also kick-started CRM upgrade, HR onboarding and document digitalization projects.

Following its principle of being accessible anywhere anytime, in the beginning of 2018 Ameriabank launched online retail lending scoring module, which enables physical entities to apply for credit cards, overdrafts and consumer loans in the amount of up to AMD 10 mn online, get their answer in a matter of minutes and, if the applicant is already an Ameriabank cardholder, use the funds instantly. Non-customers can use also our scoring loan website to receive instant decision and get the funds by visiting any Ameriabank branch. Those who prefer face-to-face service can also use the scoring module service by visiting a branch and receiving instant answer and, if approved, get funds within minutes. Online scoring module was a huge success in 2018; it constituted 12% of total retail portfolio and accounted for 25% of consumer loans by volume.

Improved loan decision-making speed and increased operational efficiency for small and medium enterprises (SME) are Ameriabank's top organizational priorities. At the end of 2018 Ameriabank launched SME online and in-branch scoring module, enabling SME's to get up to AMD 10 mn unsecured loans in a matter of minutes.

New customer onboarding has never been a pleasant process in traditional banks. However, bank regulations and KYC (know your customer) rules must be strictly followed. To be convenient for customers without compromising its regulations, Ameriabank launched a new initiative to ease the hassle for new customers and provide online phased onboarding. Now customers can complete the first phase of onboarding by just submitting a photo ID and a selfie without visiting the bank in person and within minutes get access to use their account for certain limited purposes. With this approach Ameriabank is enabling partial functionality in return for very quick onboarding process; the Bank allows full access when the full KYC process is completed either via scheduled video call or personal visit.

DEVELOPMENT OF TECHNOLOGIES AND INFRASTRUCTURE

CRM AND HR AUTOMATION TECHNOLOGIES

Ameriabank continues to invest in IT with a focus on ensuring that its systems and processes are both efficient and resilient and the Bank's customers' experiences are improved via seamless integration between front office and back office automation of key customer journeys.

Having readily available information for client managers is critical to account management and customer satisfaction. In order to improve loan origination and account management processes for its customers, in mid-2018 Ameriabank launched a CRM upgrade project. The new CRM upgrade with Microsoft Dynamics will assure 360-degree customer view, improved business process management capabilities and seamless integration between front, middle and back office operations. This project enables two-way integration between core banking and CRM so that client managers can effectively onboard new customers, manage accounts and handle collateral-secured loan applications through customized workflow processes. Ameriabank is anticipating these new automated workflows to significantly decrease secured loan processing time. And 360-degree customer view capability will help client managers to better see customers' needs from one place and proactively offer new, relevant and targeted products.

In order to provide customer service excellence, Ameriabank needs to have best-of-breed talent acquisition mechanisms. As part of this goal Ameriabank is on the way of automating its HR recruitment processes (hiring and onboarding, recruitment planning, announcement, sourcing and selection).

FUTURE DEVELOPMENTS

Digitalization and Innovation will be the primary drivers enabling and sustaining Ameriabank's growth in years to come. The Bank defines the first driver, Digitalization, as a combination of two aspects – Internal Efficiency and External Impact.

Internal Efficiency focuses on re-engineering and automation of core internal functions such as back office, procurement, administration and HR, with each process assessed and prioritized by its impact – cost savings and efficiency. By the end of 2020 Ameriabank expects to have automated core processes with the highest impact and by 2021 become a fully digitalized financial institution with unmatched efficiency and cost-saving per employee in the market. A logical consequence of its automation target is tangible optimization of manpower costs with re-deployment of those whose jobs have been automated to a more value-added pursuit within the Bank.

External Impact focuses on transforming customer journey with exceptional customer experience and usability standards – re-designing all existing digital channels based on how customers interact with the Bank. The Bank will start with its upcoming launch of newly built Internet Banking and Mobile Banking solutions later in 2019. For external impact Ameriabank has set a number of ambitious growth targets covering customer acquisition and retention as well as revenue generation. Ameriabank's vision is to create a unified experience throughout all its digital products, one that drives unprecedented growth and engagement of its digital customers for years to come.

Ameriabank's second driver, Innovation, or the ability to innovate, is defined by its agility. The Bank's agility in terms of: proactively responding to rapidly changing customer needs and technology trends with disruptive product offerings and technology solutions; agility in initiating and leading cooperation with different eco-systems such as new customer segments, technology vendors and FinTech start-ups. The latter, as a part of its open innovation effort, play an instrumental role in setting up an environment that boosts FinTech development in the country, and unite different teams under one technological framework. Agility is also the primary ingredient of Ameriabank's product development practice. The Bank re-engineered the whole product development process by continuously asking a set of simple questions: How quickly can the Bank respond to market change? How quickly can it deliver customer-centric digital experience? What defines our customer-centric approach? How well does the Bank adapt and customize its digital offerings to different customer demographics? How can Ameriabank do it faster and for less cost?

As part of Ameriabank's digitalization strategy, it places an important emphasis on digital experience of the Bank's staff. Ameriabank designs employee experience driven by the following questions: How will employees fit into digitally transforming organization? How will their work change? What new tools and processes do they need? How well will they embrace the change and what guidance is needed? Digitalization enables the Bank's employees to automate many of their tasks and focus their efforts on collaboration and communication. That's why Ameriabank places an important focus on its communication channels and deploys tools that should drastically change its internal, real-time collaboration and communication.

Ameriabank's Digitalization and Innovation strategy is based on the following core dimensions:

New Product Development Process. Re-engineer the whole process based on how Ameriabank interacts with its internal and external customers, design a technology solution, develop and roll out that solution in the market. The Bank's re-designed, agile product development process now enables closer collaboration with businesses and ensures continuous and timely delivery of technology solutions that solve critical business problems and deliver exceptional customer experience.

Unified Architecture and Technology Standards. Establish architectural and technology practices and standards enabling a new level of re-usability, modularity and compatibility for the whole family of Ameriabank's digital products, bringing high degree of performance optimization, ease of technical support and product security.

Data-Driven. Deploy enterprise-level data warehousing solution that delivers a new standard in how the Bank makes decisions, how it understands its customers and how it builds new product offerings. Data warehousing will be one of the key drivers for Ameriabank's company-wide, customer-centric product development initiative.

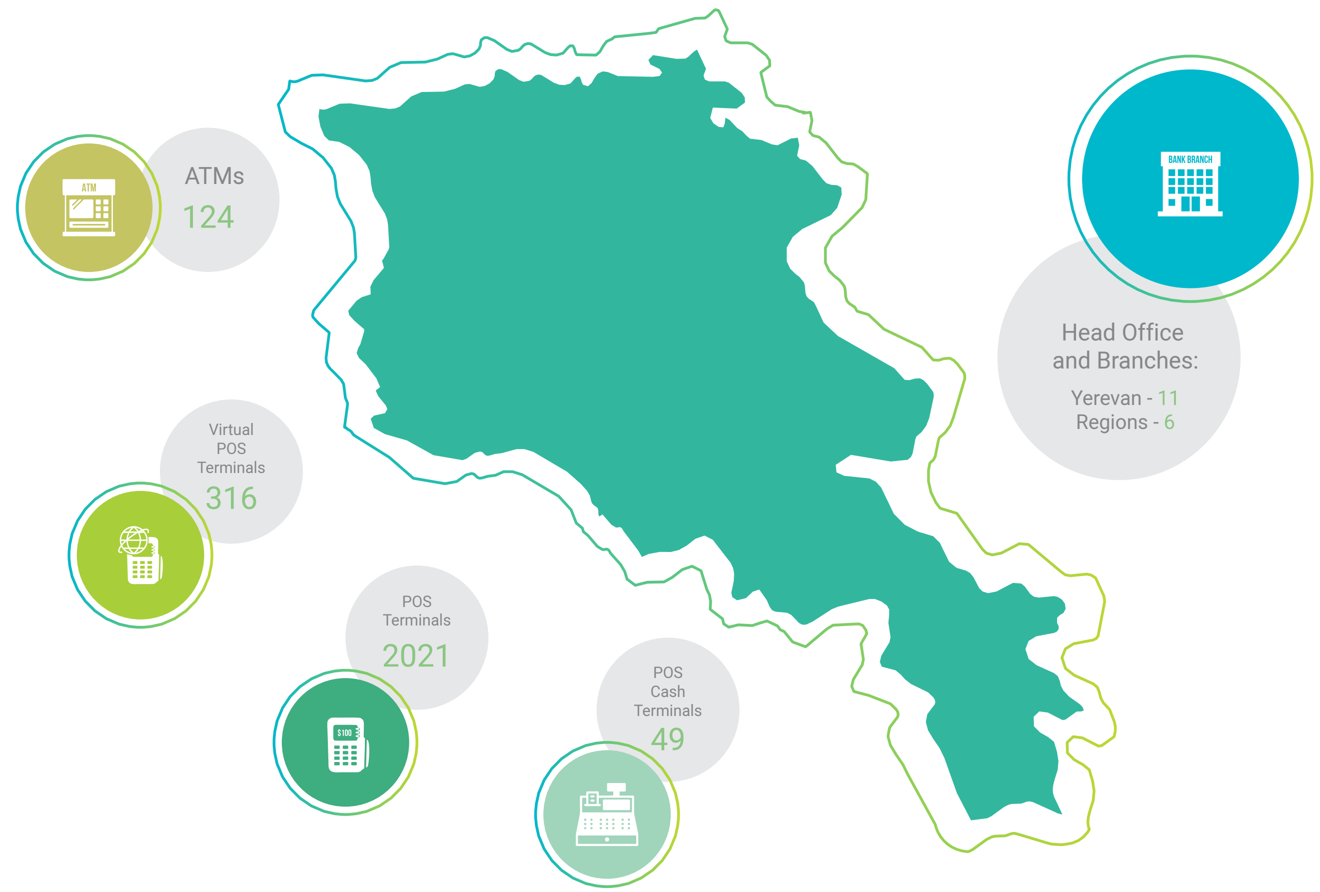
Solution-Enabled Mindset. Design and build technology solutions, powered by the Bank's extensive experience in financial and technology domains, that successfully meet not only its internal customer needs but are well demanded and positioned in both local and external markets.

GEOGRAPHICAL FOOTPRINT

Ameriabank is constantly making steps towards its digital transformation. As a result of developments and changes in the habits of the Bank's clients in 2018 the number of Internet/Mobile banking users grew by 40% and the transactions through Internet/Mobile banking grew by 59%. The number of total transactions through digital/self-service channels (including ATMs, express banking self-service kiosk and terminals) grew by 46%. The share of transactions through digital banking/self-service channels in overall transactions constituted 77% and shows positive trends, whereas the share of other channels (in-branch transactions, backoffice-handled transactions and phone banking) decreased by 4%, which distinctively showed the readiness of Ameriabank's clients to go digital with the Bank.

In 2018, the Bank opened three branches: Jermuk branch in Vayots Dzor region, Kamar branch in the Bank's new headquarters and Nor Nork, the latter two expanding our presence in the Capital city. The Bank's geography covers major urban areas of Armenia, namely: Vanadzor (Lori region), Dilijan (Tavush region), Kajaran (Syunik region), Kapan (Syunik region), Gyumri (Shirak region), Jermuk (Vayots Dzor region) and the most dynamic districts of Yerevan (the head office and 11 branches in Yerevan). The operations of all branches and the head office are synchronized with a unified software infrastructure allowing Ameriabank's clients to bank at any branch, irrespective of where the account was initially opened.

Along with expansion of branch network, Ameriabank is also committed to enhancing and optimizing its ATM, payment terminals and POS chain aiming to provide better comfort for distance banking to its clients. Accordingly, in 2018 the Bank increased the number of its own payment terminals from 15 to 32 and started to cooperate with all national payment and settlement organizations; this includes more than 3,500 payment terminals and mini branches. As of year-end 2018 the Bank had 124 ATMs, 2,021 POS terminals, 316 virtual POS terminals and 49 POS cash terminals installed.



MACROECONOMIC PREREQUISITES

2018 was quite a successful year for Armenia in terms of economic growth. Accelerated pace of growth, which began in 2017, was to some extent maintained in 2018 as well. After a sharp decline in 2009 the economy was characterized by a period of moderate recovery during the period from 2010 to 2015 with an average annual growth of 4.0%. 2016 saw very slow growth of 0.2%, while during 2017-2018 average growth pace went up to 6.4%. **The economic growth for 2018 comprised 5.2% – somewhat slower vs. the previous year, yet still considerably higher than the average of the years before that, and again the highest compared to peer countries and EEU.**

Among the global developments that influenced Armenia were: slow growth of global economy in 2015-2016, especially in emerging countries (Russia in particular); low prices for most of commodities and geopolitical situation in the region. This pattern started to change in 2017 and to some extent was maintained over 2018 as well, nevertheless it did not bring to a large positive change in remittances to Armenia – there was some growth, but at slower pace than before. Foreign direct investments to Armenia are maintained on comparably low level, yet slight increase vs the previous year was seen.

Economic developments in Armenia during 2018 continued with stable exchange rates and consumer prices, yet with comparably larger current account deficit.

The economic growth is expected to be stable for the upcoming 2-3 years. According to the forecasts of international organizations (IMF (4.8%), EBRD (5.0%)), economic growth for 2019 is expected to be around 5.0%.

The **consumer price index (CPI)** growth in 2018 (December to December) was 1.8%, which was slightly below the Central Bank of Armenia's (CBA) targeted inflation rate of 4% (± 1.5%). Average annual inflation was 2.5%. Prices for almost all groups of commodities were relatively stable during the year. AMD/USD exchange rate remained stable, too. CPI is expected to remain relatively stable and within the range of targeted inflation rate in 2019.

Nominal GDP in 2018 was AMD 6.0 tn – the highest ever level in history. Nominal USD-denominated GDP was USD 12.4 bn, which is the highest in 6 years.

Acceleration of economic growth in 2018 was mainly fueled by increase in sectors such as **arts, entertainment and recreation** (23.9% growth, with contribution to GDP growth of 1.3 percentage points instead of 1.4 p.p. in 2017), **manufacturing** (10.1% growth, 1.0 p.p. contribution to GDP growth vs. 0.6 p.p. in 2017) and **wholesale and retail trade** (9.0% growth, 1.0 p.p. contribution to GDP growth – 1.0 p.p. lower than previous year's 2.0 p.p.). A relatively higher contribution to GDP was secured also by **financial and insurance activities** – 19.0% growth, 0.9 p.p. contribution to GDP vs. 0.8 p.p. a year earlier. This economic growth was reported despite continuous decline in **agriculture** – 8.5% decline in 2018 and 5.3% decline in 2017, with 1.3 p.p. and 0.9 p.p. negative contribution to GDP. The long-awaited growth of **construction** sector was maintained over 2018 as well, yet at slower pace (1.6%) vs. 2017 (2.5%); continuous decline was observed over the previous 5 years, the sector's contribution to GDP standing at 0.1 p.p. and 0.2 p.p., respectively. There was impressive growth in **accommodation and catering** (35.9%) and **administrative and support services** (26.8%). Agriculture, public administration and mining

& quarrying had the largest negative contribution to GDP (-1.3 p.p., -0.5 p.p. and -0.4 p.p., respectively).

The leader until 2015 (following construction sector in 2008 with average annual growth of 7.2% in 2011-2015), **agriculture** continued to decrease in 2018 (-8.5%); in 2017 and 2016 the decline comprised 5.3% and 5.0%, respectively. The reason for this drop was decline in crop growing subsector, mainly due to less favorable climate conditions and adjustments based on 2014 agriculture census. Nevertheless, it remianed the largest sector by share in GDP in 2018 as well (13.7%); the share had begun to decrease in 2013 (18.4%).

Another former leader, **construction** (leader until 2008, which after a 4-year decline reported a positive change of 2.5% in 2017), started the year 2018 on a positive track – growth was seen during the first two quarters that turned to negative change at the end of the year. Nevertheless, the whole year resulted in a 1.6% positive change and 0.1 p.p. positive contribution to GDP.

Finance and insurance, the most rapidly growing sector in GDP in 2011-2014, declined by 3.9% in 2015 mostly due to slowdown of regional economic developments along with depreciation at the end of 2014 of all national currencies in the region. The sector recovered by 8.9% in 2016. The growth was sustained with accelerating trends over the next 2 years as well, with 17.7% increase in 2017 and 19.0% growth in 2018.

The main contributor to GDP – **arts, entertainment and recreation** (predominantly gambling services, including export of IT-related solutions) – was booming in Armenia during the last 6 years with increased share in GDP from 1.3% to 6.1%.

The increase in **manufacturing** (the 2nd contributor to GDP growth) was largely driven by food, non-metallic mineral products and tobacco: more than half of the 10.1% growth is due to these products.

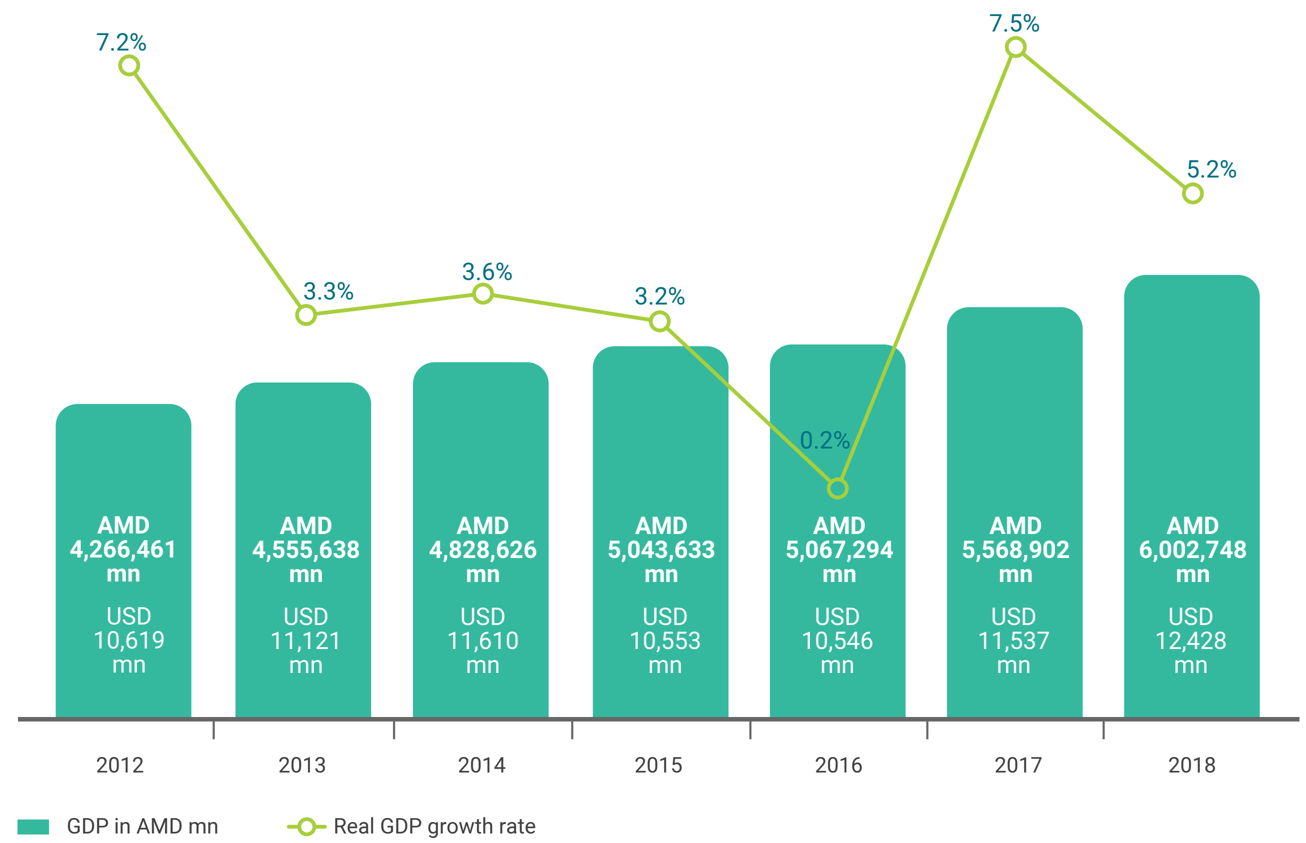
After the tangible contraction experienced in 2015 due to worsened trade conditions affected by slowdown of Russia's GDP growth, drop of metal prices and depreciation of regional currencies against USD, Armenia's external trade entered a phase of growth in 2016 which was maintained in 2018 as well, though at slower pace vs. the previous year. The same is true for the double-digit growth of imports started in 2017 (growth pace in 2018 was 21.1%), whereas export volumes grew by 8%, which, although positive, is still a step back from the double-digit increase of 2017. Nevertheless, due to 20% increase in imports and circa 8% growth of exports, trade deficit in 2018 reported some increase vs. a year earlier. **The current account deficit** has slightly deteriorated amid faster growth of imports in external trade. CAB deficit-to-GDP is at - 9.1%, that is 6.7pp worse than 2017 (in 2017 CAB deficit-to-GDP ratio was 2.4%).

In 2018, **the external public debt** of Armenia amounted to 44.5% of GDP vs. 47.6% in 2017. Total value of external public debt as of year-end 2018 was USD 5 533 mn, only 0.7% up from a year earlier. Government debt is 90.1% of total external public debt (vs. 89.1% in 2017) and the remaining 9.9% (vs. 10.9%) is with the CBA. Official **foreign currency reserves** declined by 2.8% in 2018, comprising USD 2.25 bn vs. USD 2.31 bn in 2017, a 5.0% increase compared to 2016. Situation with the state budget deficit has largely improved. In 2018, budget deficit was only 1.6% of GDP compared to 4.8% in the previous year.

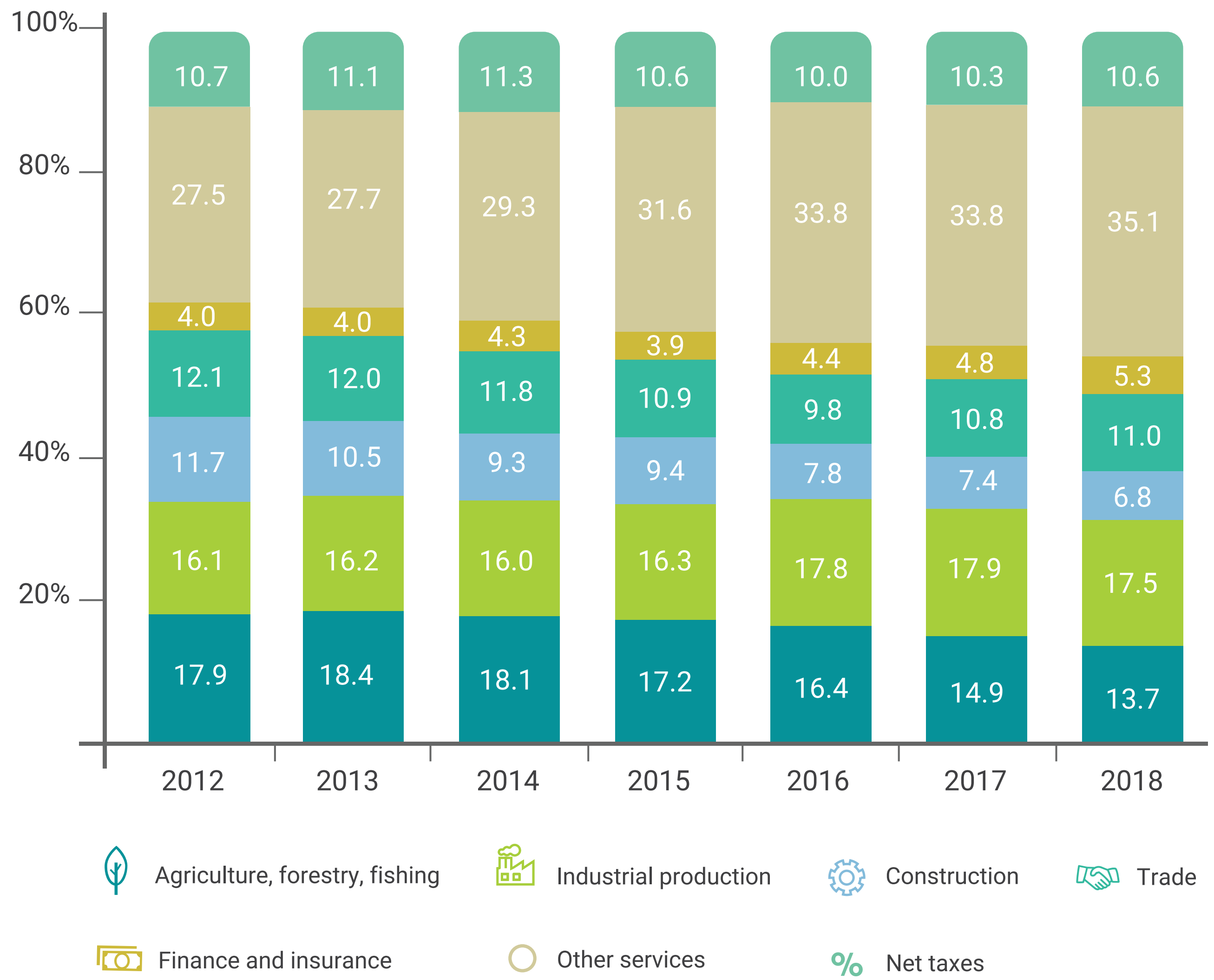
In 2018 Armenia continued active economic cooperation with international institutions and allocation of funds raised from WB, IMF, ADB, and EU. Particularly, the World Bank portfolio had more than 20 active projects in 2018. The projects were implemented across many sectors including energy, agriculture, education, roads, health, irrigation, rural development, public administration, etc. The country operations business plan (COBP) 2019-2021 of Asian Development Bank (ADB) for Armenia is aligned with ADB's country partnership strategy (CPS) 2014-2018 for Armenia and in line with the government's priority areas as articulated in its program for 2019. The COBP is consistent with the strategic priorities set out in ADB's Strategy 2030 and takes into account the transition to CPS, 2019-2023. EBRD strategy in Armenia focuses on the following: enhancing private sector competitiveness by strengthening capacity, increasing corporate transparency and improving the business environment, developing capital markets and promoting local currency financing, developing sustainable and commercialized public utilities.

Over the past few years, Armenia has taken steps towards improving **the investment and business climate in the country**. According to the World Bank Group's Doing Business 2019, Armenia ranked 41st out of 190 countries – improvement by 6 positions vs. the previous year and 2.06 p.p. change in score; there was positive change in the scores of almost all sub-indicators. Armenia ranked 70th out of 140 countries according to the World Economic Forum's Competitiveness Index 2018 vs. 72nd (out of 135 countries) in 2017. The Heritage Foundation's Economic Freedom Index 2019 ranked Armenia 47th freest (out of 180 countries, and labelling it moderately free) in the world. Although Armenia's score dropped down by 1.0 point due to lower scores on fiscal health, government integrity and judicial effectiveness, the country is still well above world average by that score.

Gross Domestic Product (GDP)



Share of sectors in GDP



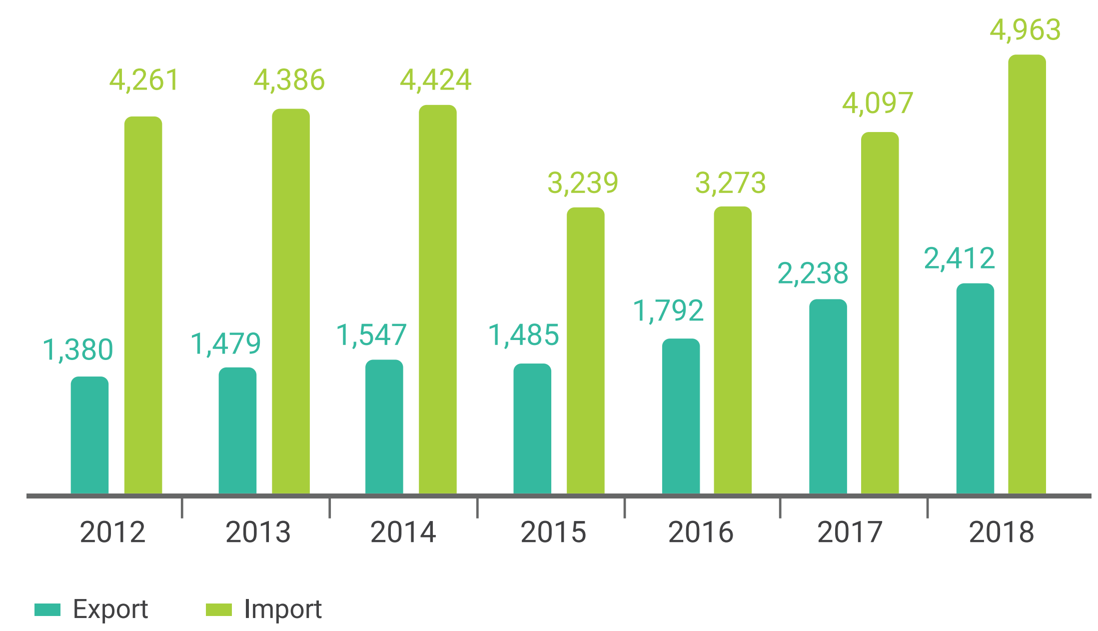
Exchange rate & CPI

AMD/USD Exchange rate

	2012	2013	2014	2015	2016	2017	2018
Average annual	401.76	409.63	415.92	477.92	480.49	482.72	482.99
End of year	403.58	405.64	474.97	483.75	483.94	484.10	483.75
CPI % (December to previous year December)	3.2	5.6	4.6	-0.1	-1.1	2.6	1.8

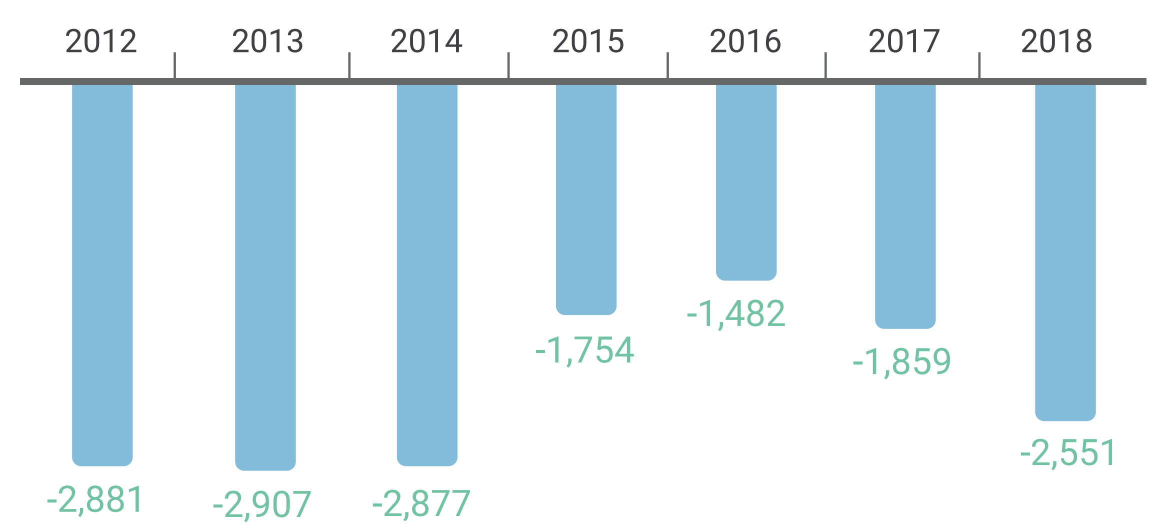
Import and export (of goods)

USD mn



Foreign trade balance

USD mn



STRATEGIC REPORT
BANKING SECTOR IN ARMENIA

Armenia's financial system reported growth of key indicators in 2018 as well. Despite uncertainty during the Velvet Revolution, 2018 was rather stable for the banking system which posted record-high net profits in the past five years. Remarkably, there has been no bank default in Armenia for more than 15 years. Over the past 10 years, one of the indicators of financial intermediation in economy – loans to GDP ratio, has almost tripled, though the country is still lagging by financial intermediation compared to Eastern European countries. As of the end of 2018, loans to GDP was 51.2%; it was 17.8% in 2008. Banks reported almost 13.8% increase in assets, 16.2% in loans. Growth was seen also among credit organizations – assets by 17%, loans by 17%, as well as insurance companies and other financial system players. Aggregate pension funds grew by around 49% to top AMD 157 bn or 2.6% of GDP.

REMARKABLE EVENTS AND TRENDS IN 2018. KEY CHALLENGES

- During the post-revolution period, as part of amnesty for fines and penalties on bad loans, Armenian banks forgave the obligations of 19,000 individuals to a total of AMD 9.5 bn starting from June 2018.
- The Central Bank of Armenia (CBA) expands the range of its objectives aimed at ensuring the stability of both prices and financial system. During 2018 CBA maintained stimulating monetary policy and in January 2019 even lowered the refinancing rate by 0.25 percentage points. On November 22 CBA put into circulation new banknotes with face value of AMD 10 thousand, AMD 20 thousand and AMD 50 thousand, and banknotes with face value of AMD 1,000, AMD 2,000 and AMD 5,000 were put into circulation on December 25.
- Under the latest government-designed bill, citizens will have to pay social security taxes equivalent to 2.5% of monthly income, down from 5%. While earlier the law was mandatory for public sector employees only, it became mandatory for private sector, too.
- Armenian government introduced some changes in the subsidizing scheme of mortgage loans under the Affordable Housing for Young Families program. Unprecedented terms were offered to young families, in particular – mortgage loans at 7.5% to residents of Yerevan and up to 5.5% to residents of provinces. Besides, the aggregate eligible age of spouses was raised from 65 to 70.
- Going forward, a pilot agricultural insurance program will be introduced in 2-3 provinces of Armenia for 2 or 3 crops in 2019, aimed at reducing the risks of natural disasters.
- Due to state subsidies, targeted loans will be provided to entrepreneurs at 3% per annum, instead of the previous 9%. The maximum amount of loan to each company is up to AMD 1.5 bn, term – maximum one year.
- Farmers in near-border villages will be able to buy agricultural equipment with 0% interest rate - government decision.
- Armenia is to have a national venture fund.
- Finally, we should note that despite the progress in a number of directions, there are also some limitations (such as still-higher growth rates of retail banking compared to corporate banking) that may hamper the development of the banking sector and financial system as a whole.

- Meanwhile, high level of dollarization is still a key **challenge** of the banking sector (with a slow decline in 2018 though) in line with the need for resources in local currency:
  - Though dollarization in Armenia grew dramatically after the devaluation in 1999 – from 40% to 75%, the currency shock at the end of 2014 made the indicator shift towards the AMD component.
  - At the end of 2016 the ratio of USD-denominated deposits to those in AMD was 65.5% to 34.5%, in 2017 – 62.1% to 37.9% and in 2018 – 61.6% to 38.4%.

  This increases banks' ability to lend in local currency.

- Organizing customers' migration to digital channels is the new challenge of Armenian banking system along with business transformation. Growth of competition and rapid penetration of digital technologies into all areas of economy worldwide have eventually driven Armenian players to review and modernize their businesses to make transactions easier and faster, have better services to offer and enhance growth. Outside developments and rapid changes in IT sector, too, push banks to tap this direction.
  - Currently banks actively cooperate with IT companies as well as develop their own research and innovation departments to stimulate introduction of new digital-oriented banking products.
  - Wider outreach and growth of client base require banks to reorganize their data management systems by implementing big data management solutions.
  - Because non-cash transactions are convenient and beneficial not only for client and bank, but also for the state (for example, in terms of tax collection), the government, too, encourages non-cash and online operations by elaborating legislative initiatives.

  Early in the year Ameriabank introduced an automated scoring system for retail lending, and in November a similar system was introduced for small and mid-scale businesses. By the end of the year, Ameriabank became the first bank in Armenia to introduce Visa PayStickers for contactless payments and SMART accounts that can be opened distantly via internet.
  Looking to the future, one can predict that major events in the industry, such as The World IT Conference to be held in autumn in Yerevan (WCIT 2019), may also have a significant role in this regard.

- In 2018 banks actively continued to raise funds through bonds issuance on local market:
  - At the end of December 2018 securities of 23 issuers were listed on the local stock exchange, of which 10 were banks
  - Two Armenian banks replenished their shareholder capital in 2018 by attracting new shareholders. Asian Development Bank made a USD 30 mn equity investment in Ameriabank.
  - Armenian Stock Exchange reported record-high volume of trade in corporate bonds in 2018 – AMD 30.4 bn, 2.7 times more than in 2017.

Overall, the activity in the Armenian corporate bonds market over the last 3 years was high, most issuers being local banks and several credit organizations.

- In 2018 Armenian stock market continued to grow:
  - The total number of transactions with corporate bonds on the Armenian Stock Exchange was 1,584 in 2018, with aggregate transaction volume of AMD 30.36 bn.
  - The number of transactions declined by 46.5% compared to 2017 (80% decline by volumes). Activities in 2017 can be explained by higher than usual level of transactions due to increase of normative capital.
  - Trade in government bonds declined by about 14%, while repo transactions almost doubled (1.7 times) and the volume of one forex transaction almost tripled.
  - In July 2018, Armenian Stock Exchange and the Depository worked out a new strategy for 2018-2020 to enhance the effectiveness of using business prospects in capital market in Armenia and the region. It includes a work schedule and a new management system due to which organization of stock exchange trading will be upgraded to make Armenia's market available (without mediators) to local and foreign investors.
  - A crowdfunding platform will be created, and startups will be able to attract debt capital. Besides, a B2B platform will be created for large companies to attract and allocate financial resources.
  - It is also planned to work out a mobile application for Depository-provided services as well as many other novelties and services for capital market players.

In 2019 startups, especially from IT sector, will mostly prefer alternative financing options such as crowdfunding, venture funds, grants, etc.

Financial Institutions Operating in Armenia

	2017	2018
Banks	**17**	**17**
Credit organizations	**35**	**39**
Insurance companies	**7**	**7**
Funds, including	**23**	**31**
Pension	8	8
Investment	15	23

- The Executive Board of the International Monetary Fund assessed the financial system of Armenia as stable, and the compliance with the fundamental Basel principles of banking control was high – 97%.

RATING AGENCIES ON THE FINANCIAL SYSTEM AND ECONOMY OF ARMENIA

- Fitch affirmed Armenia's B+ (Outlook Positive) rating. At the same time the agency expects a slowdown in the growth rate of the banking system of Armenia in 2019, compared to 2018. There are macroeconomic reasons for that, since a more moderate growth of the country's economy is expected in 2019.
- In March, Moody's changed the outlook on Armenia's rating from Stable to Positive and affirmed the B1/NP long-term issuer and senior unsecured debt ratings.
- S&P Global Ratings assigned to Ameriabank B+/B long- and short-term issuer credit ratings with stable outlook. Ameriabank is the first Armenian company rated by S&P Global Ratings.

2018: CONTINUOUS GROWTH OF BANKING SECTOR WITH ACCELERATION

Record Profits of Banks

Net profits of Armenia's banking sector for 2018 totaled AMD **62.2 bn** vs AMD 34.7 bn a year earlier. This is the all-time best of Armenian banking system. In 2018 only 1 bank reported loss compared to 2 banks a year earlier.

2018 has been a year of accelerated **two-digit growth** for Armenian banking system: the industry continued to report positive changes by all major financial indicators.
During the reporting period the sector's equity continued to grow, posting a 10% increase vs. a year earlier, to reach AMD 771 bn. As per 2018 results this indicator's share in GDP amounted to 12.8%.

Growth of equity was accompanied by growth of **assets** and **liabilities** by the end of the year. In 2018 assets of Armenian banks increased by 13.8% to reach AMD 5 tn, while **loans** jumped by 16.2% to AMD 3.1 tn. As a result, the share of the sector's combined assets in GDP of Armenia comprised 82.7%, that of loans – 51.2%.

Banks' **liabilities** rose by 14.5% to AMD 4.2 tn, 69.8% of GDP. **Liabilities to clients** increased by 11.1% to reach AMD 2.8 tn. As already mentioned, in 2018 system players actively continued to raise funds from local capital market through issuing securities, hence, **including securities issued by banks,** growth will comprise 12.5% and absolute volume – AMD 3.0 tn.

Banking sector currently has sound **liquidity ratios** and **capital** to ensure financial stability. Regulatory indicators of banks, set by CBA, come to prove that all banks have high potential for financing the economy and accumulating new funds:

- Capital adequacy ratio of the banking system is 17.7% vs. 12% minimum prudential of CBA
- Liquidity ratios are rather high as well: N2.1 – 27.3%, N2.2 – 116.6%

Loan Portfolio Quality

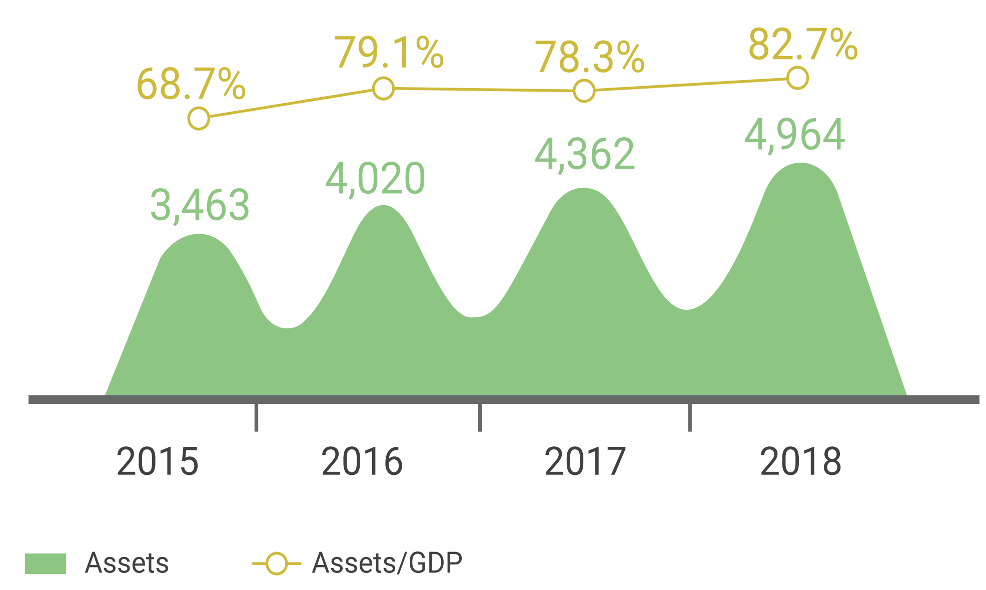
NPLs (non-performing loans) remained among the challenges of Armenian banking sector in 2018 as well, yet, worth to mention, compared to a year earlier the system portfolio quality continued to recover: in 2018 this indicator comprised 4.7% (CBA data). Meanwhile, several banks still have very high level of non-performing loans in their total portfolio.

However, banks not only succeeded in suppressing further worsening of credit quality, but also registered improvement, cleaning up loan portfolios from past due loans. Among the factors that facilitated these were loss loan write-offs, growth of lending and partial recovery of "bad" loans.

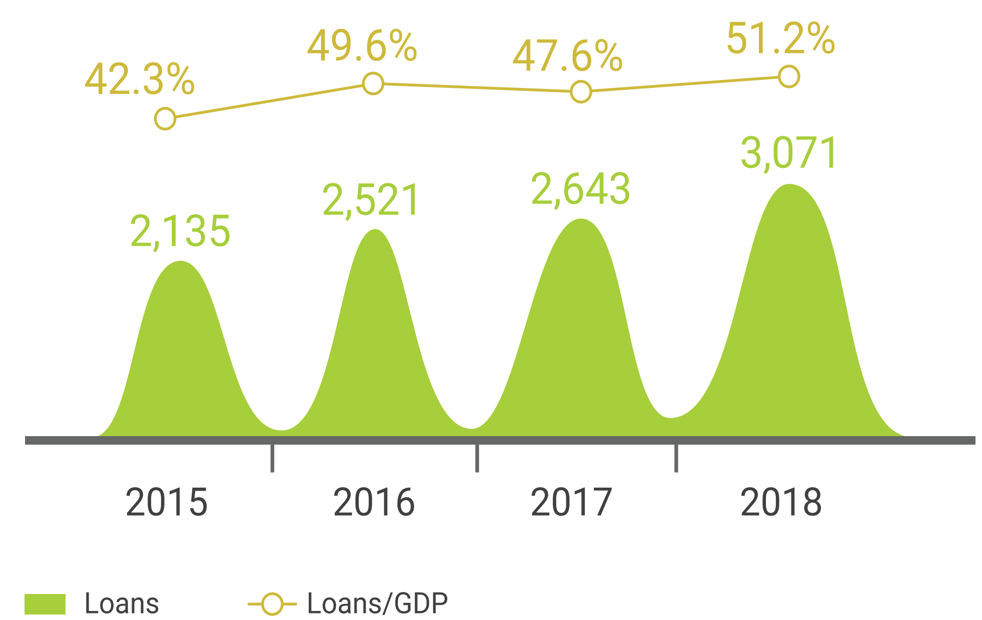
According to CBA, the share of foreign capital in the banking sector of Armenia constituted 62.1%. Long-term funds from IFIs to support Armenian economy and joint projects are another proof of trust and interest in the Armenian banking sector. In 2018 banks continued to attract long-term funds to invest in the development of different sectors of economy.

Key Performance Indicators of the Banking Sector of Armenia

Assets
AMD bn

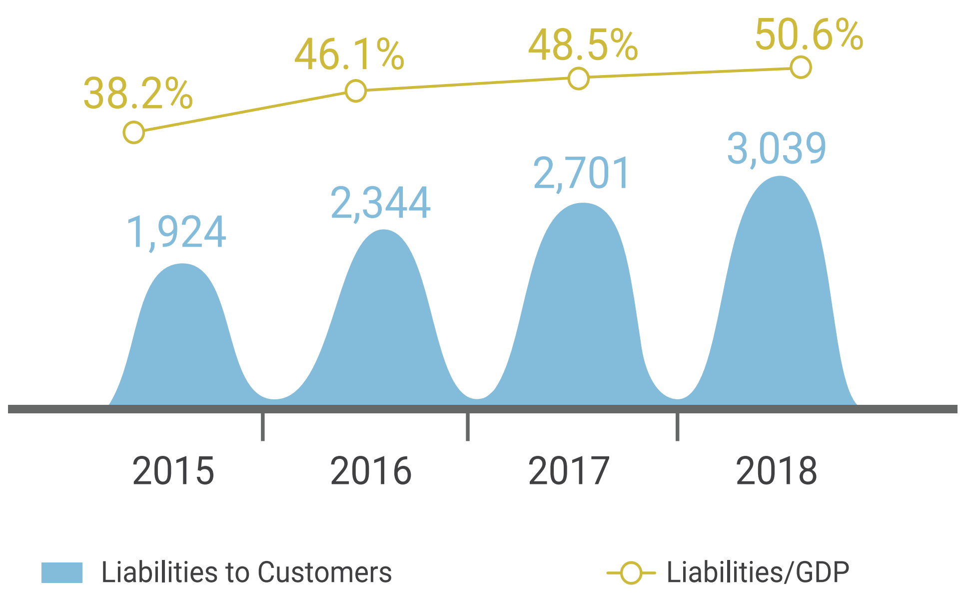


Loans
AMD bn



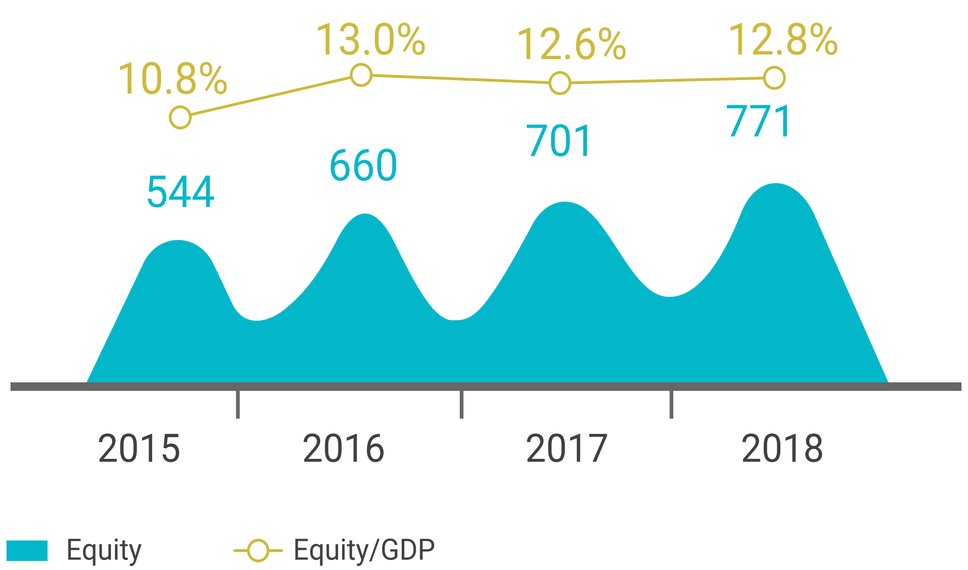
Liabilities to Customers

Customers (including securities issued by banks) AMD bn



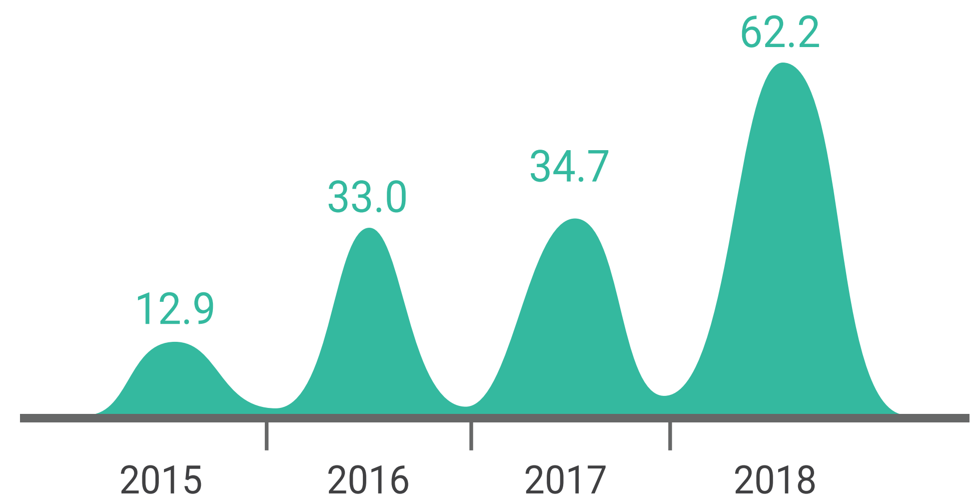
Equity

AMD bn



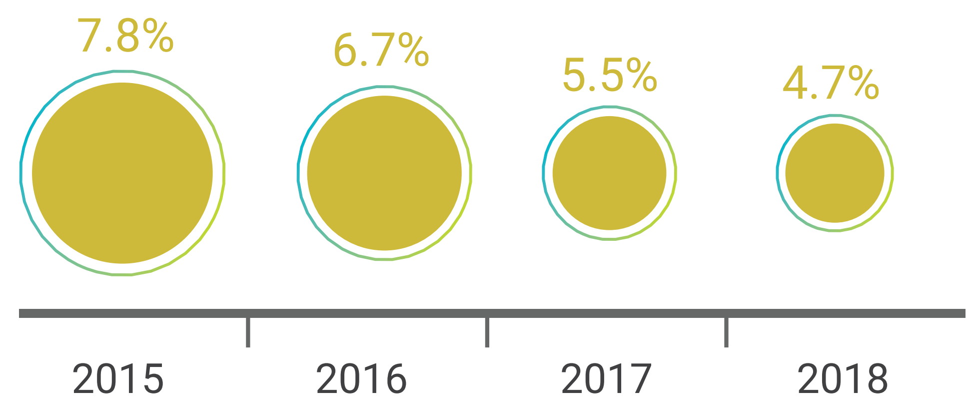
Profit

AMD bn

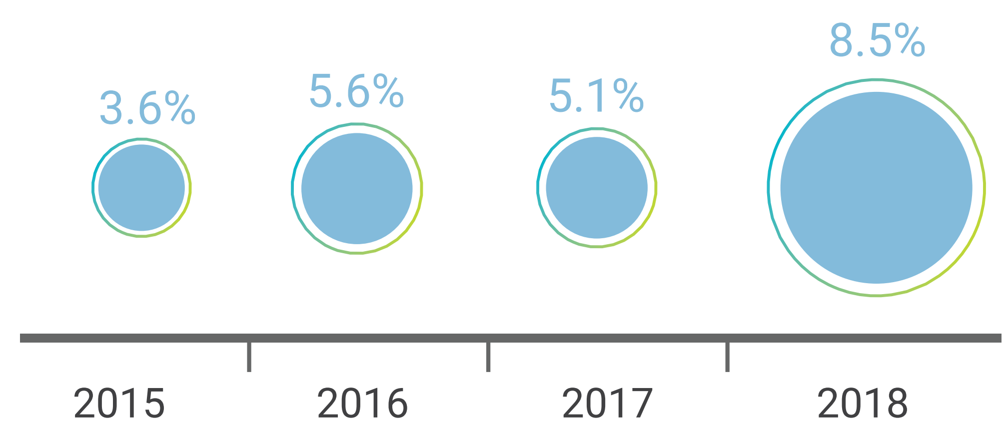


Qualitative Indicators of the Banking Sector of Armenia

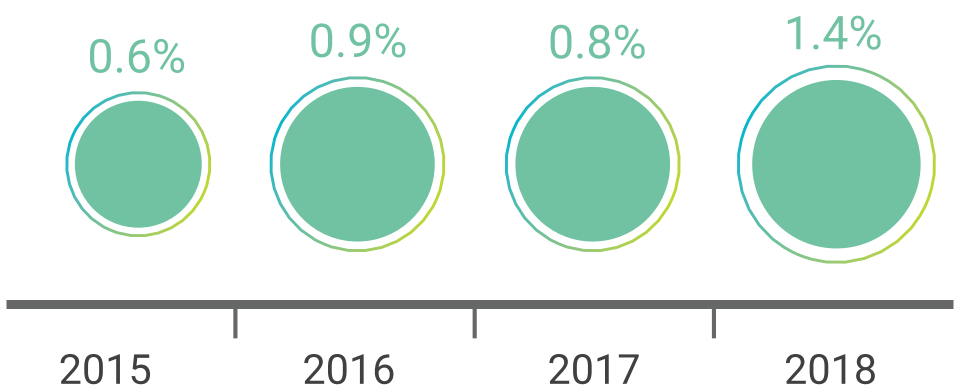
NPL (CBA data)



ROE

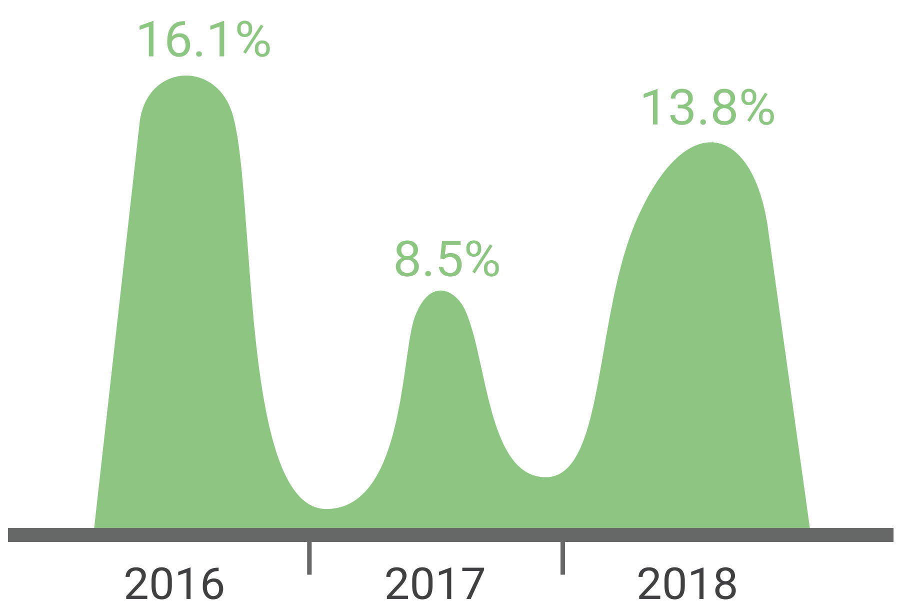


ROA

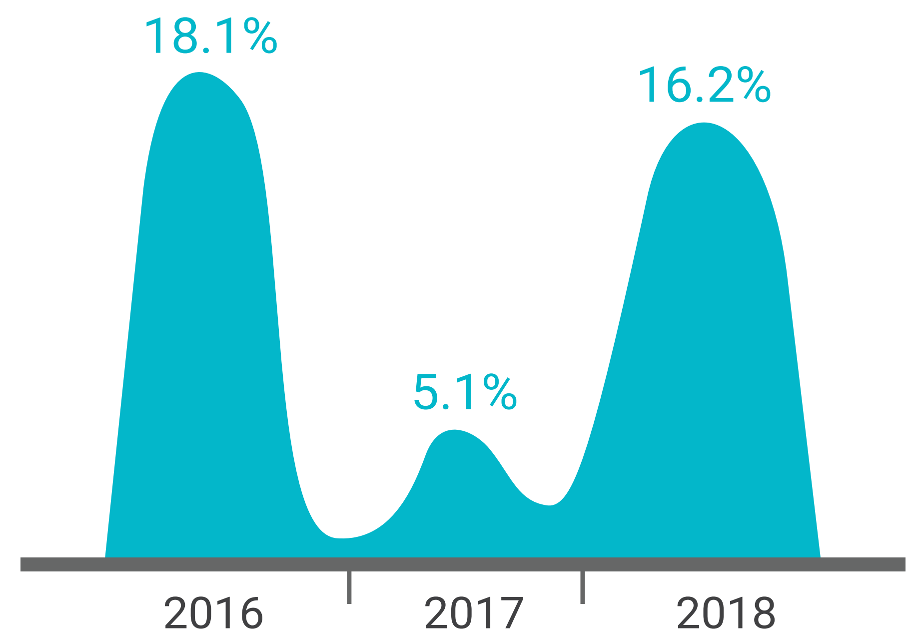


Growth Rates of Key Performance Indicators

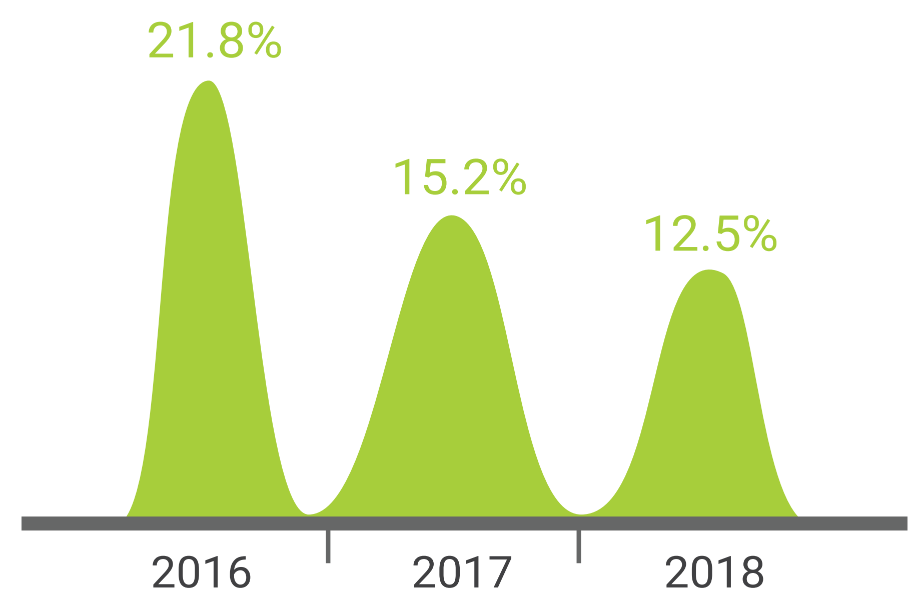
Assets



Loans



Liabilities to Customers
(including securities issued by banks)



LEGAL FRAMEWORK

In 2018 several laws and regulations of the Republic of Armenia were amended and modified. Key changes related to finance and banking are presented below.

- **Law of the Republic of Armenia on Combating Money Laundering and Terrorism Financing:** the scope of the law was extended to cover relations with respect to restriction of property of entities associated with mass annihilation weapons. Requirements to respective internal regulations were defined, as were the functions of senior management and internal control and property restriction procedures. It was prohibited to make available, directly or indirectly, independently or jointly, any property, economic resources or financial or any other service to or for the benefit of entities associated with terrorism or mass annihilation weapons. Besides that, possibility of payment in cash under real estate deals over 50 mn AMD has been restricted, with only wire transfers allowed as payment option for sums exceeding 50 mn AMD. The article of the Civil Code of the Republic of Armenia regulating cash and non-cash settlements was revised accordingly.

- **The order of obtaining CBA consent for outsourcing of operations prescribed by law by banks:** according to amendments to the Law of the Republic of Armenia "On Banks and Banking", 2017, in case of outsourcing, temporarily or permanently, all or part of operations specified by law and other (auxiliary) functions ensuring the normal course of banking activity to other entities (counterparties) banks are required to obtain the consent of CBA. The procedure and terms of provision of the consent and cases when it might be rejected were defined in respective regulation enacted in 2018. In particular, the regulation defines the types of outsourceable operations, procedure for obtaining of consent, and minimum requirements to outsourcing contracts and outsourcing-related internal acts and regulations of the bank and counterparty.

- **Regulation 8/05 "Procedure, Terms, Forms and Minimum Requirements to Communication Between Consumers and Financial Organizations":** the regulation was thoroughly revised, with a much wider circle of information to be provided to consumers (verbally and in writing) and new requirements to information included in and provided to consumers during and after termination of contracts; requirements to service provision through automated machines for financial operations were also defined.

- **Law of the Republic of Armenia "On Compulsory Execution of Judicial Acts":** in addition to existing ones, more types of funds were defined in relation to which foreclosure based on enforcement order cannot be applied, in particular: allowances to privates and junior non-commissioned officers in compulsory military service and cadets of military and police institutes and honorary benefits to military who, within the scope of compulsory military service, have served in locations designated by the Ministry of Defense of the Republic of Armenia.

- **Civil Procedural Code of the Republic of Armenia:** a new edition was passed on February 09, 2018 introducing the following changes:

  a) Simplified court proceedings were instituted, whereby courts of first instance can proceed with simplified court proceedings, if the amount of the claim involved is not more than 2000-fold of minimum salary. Court judgements for cases with simplified proceedings shall enter into legal force within 15 days after the ruling.

  b) Preliminary injunctive relief, whereby upon request of entity court of first instance can apply preliminary injunction to secure the action to be initiated by the applicant. The following are the preconditions for requesting the court to apply injunctive relief: proof that it is impossible to file a statement of claim at that particular moment and document certifying that the amount of the claim or, where the involved claim is a non-monetary one, at least 500-fold of minimum salary has been deposited to the court to secure possible losses of debtor. The entity against whom injunctive relief has been applied has the right to claim compensation for losses, if no suit was filed within defined term based on the claim with respect to which the injunctive relief had been applied in the first place, or if the suit has been rejected, left without trial or if the proceedings were terminated.

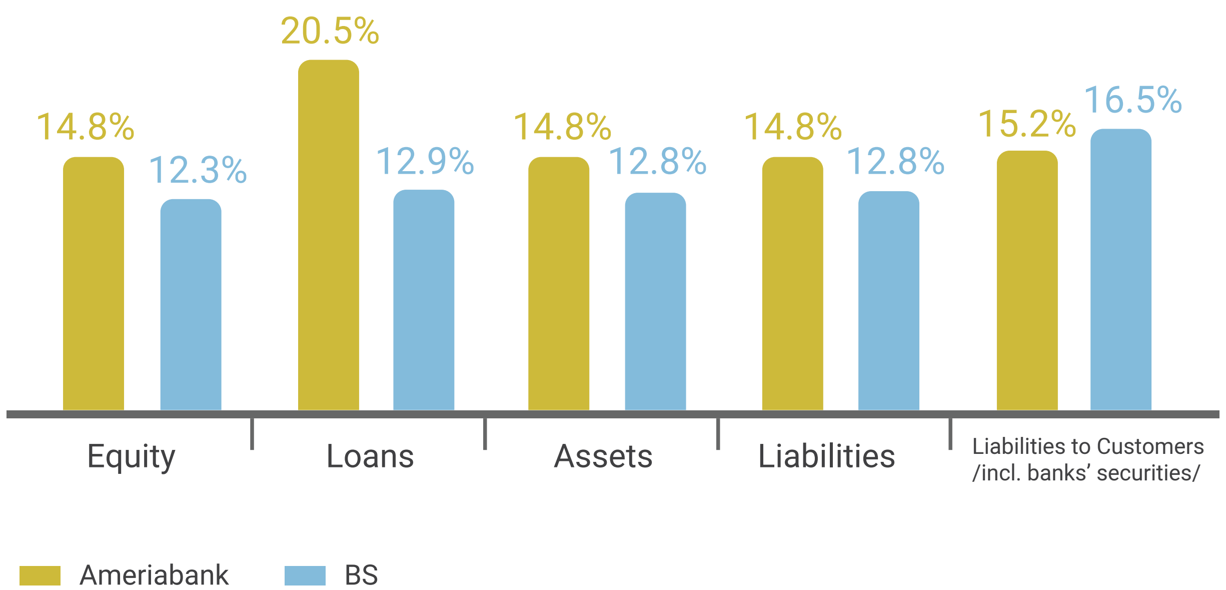
  c) New mandatory requirements to the form and content of statement of claim, in particular: the amount of claim should include among other things also amounts of claimed fines, penalties and interest as of the day of filing of claim. If the nature of claim is such that exact amount as of the date of filing cannot be determined, the claimant is required to pay state duty defined under applicable laws for non-monetary claims. The statement of claim is returned, if the claimant has not complied with the out-of-court procedures required by law or contract to be executed before referring the case to court, except where the court rules that the contract envisaging out-of-court settlement is void, ineffective or apparently cannot be executed.

  d) Claimants can submit petitions to change both or either of the subject and bases of claim before the court makes judgement on distribution of burden of proof, where required by law.

  e) As bases for termination of proceedings: court of first instance terminates the proceedings at any stage of trial, if there is a legally effective final judgement of court with respect to the case between the same entities about the same subject and with the same factual bases, except where the court rules to leave the claim without trial.

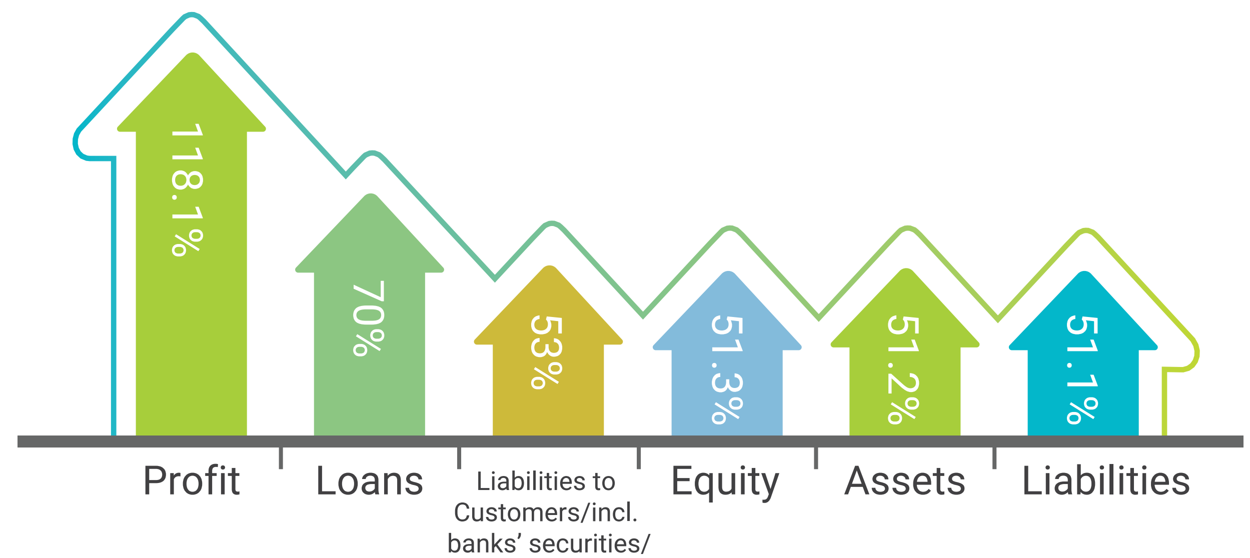
Over the last three years the Bank showed high growth rates surpassing the banking sector average. Even with slowdown in growth or decline by certain indicators, the leadership, with considerable lead over the system, has been maintained.

Growth of Key Financial Indicators: 3 year CAGR



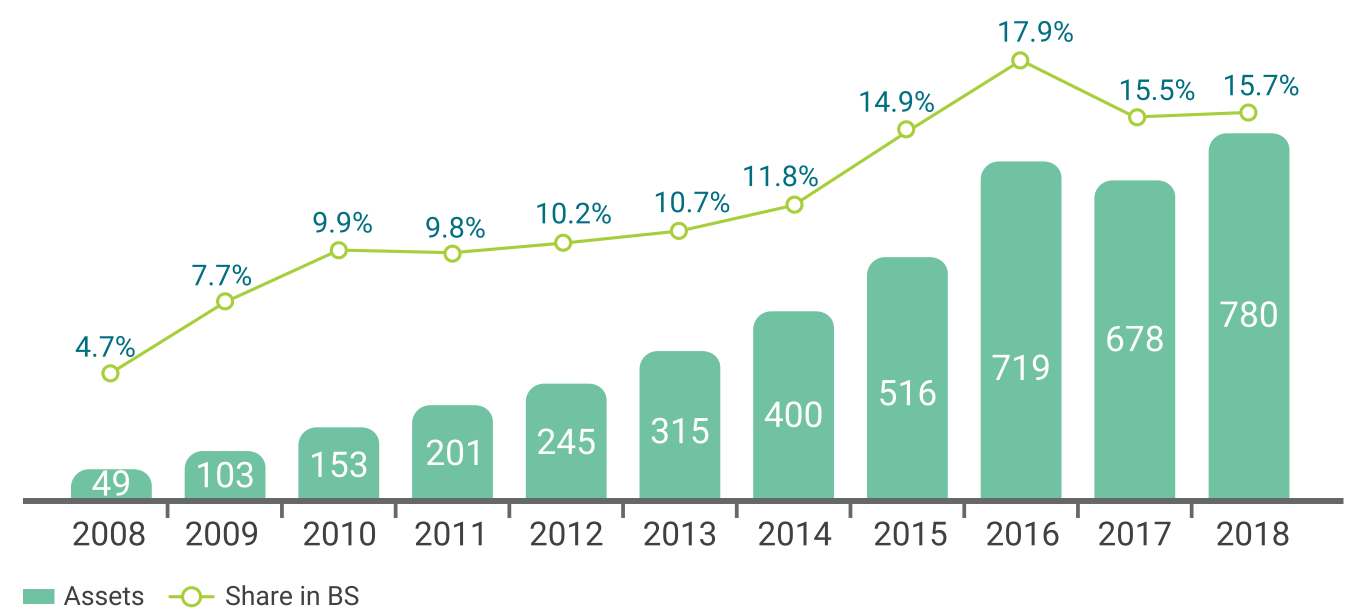
Ameriabank is the absolute leader of 2018 among Armenian banks by equity, profit, assets, loans, liabilities. Having reported more than 51% growth in equity over the last three years – 2018 vs. 2015, the Bank now accounts for about 12% of total banking system equity. During this period it posted more than 51% growth in assets and liabilities, reaching a share of 15.7% and 16.5% of total banking system assets and liabilities, respectively. Similar growth has been reported in loans and liabilities to customers (both with and without the securities issued by the Bank). Namely, 2018 vs. 2015 loans increased by 70% to reach a market share of 17.8% in 2018, and liabilities to customers by 35.7% (53% with securities), market share – 14.1% (14.8%, respectively).

Growth of Key Financial Indicators Over the Last 3 Years (2018 vs. 2015)

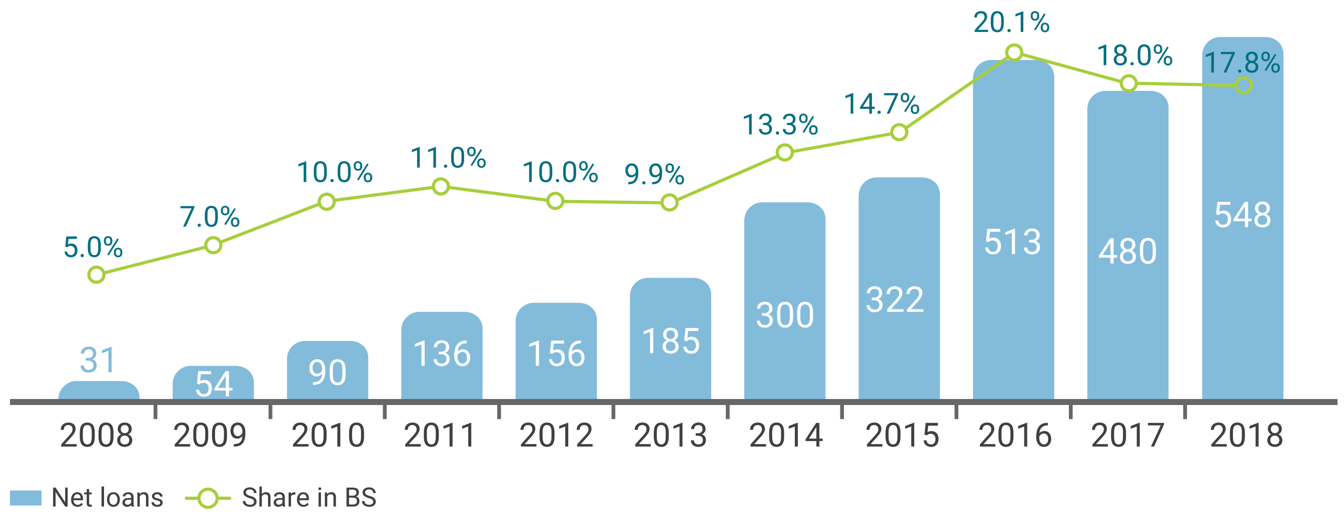


The dynamics of the Bank's key financial indicators as well as respective market shares are presented in the following graphs.

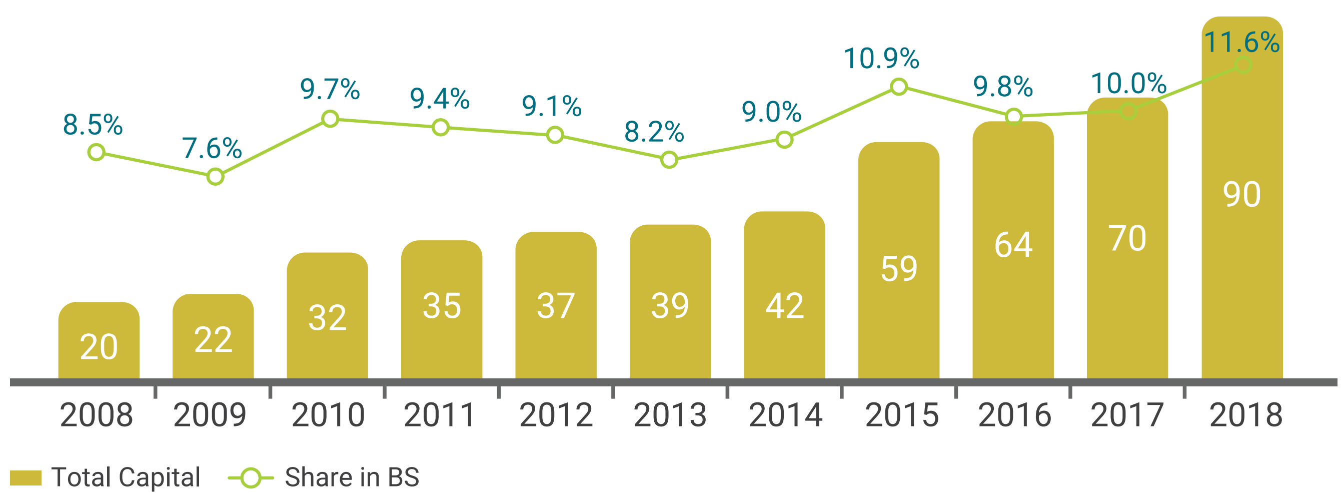
1st by Assets
AMD bn



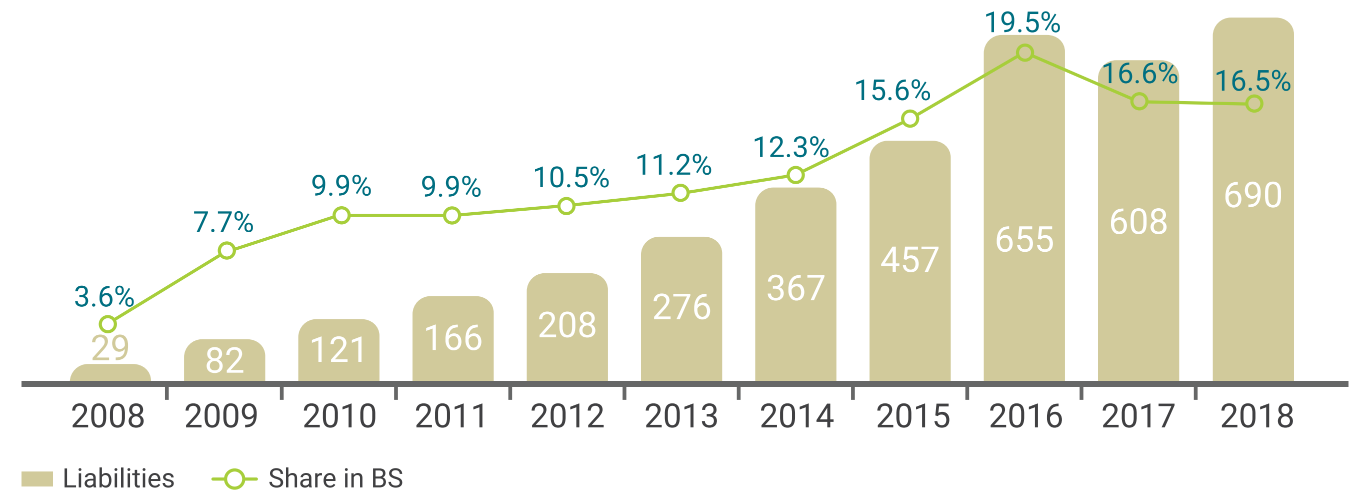
1st by Net loans
AMD bn



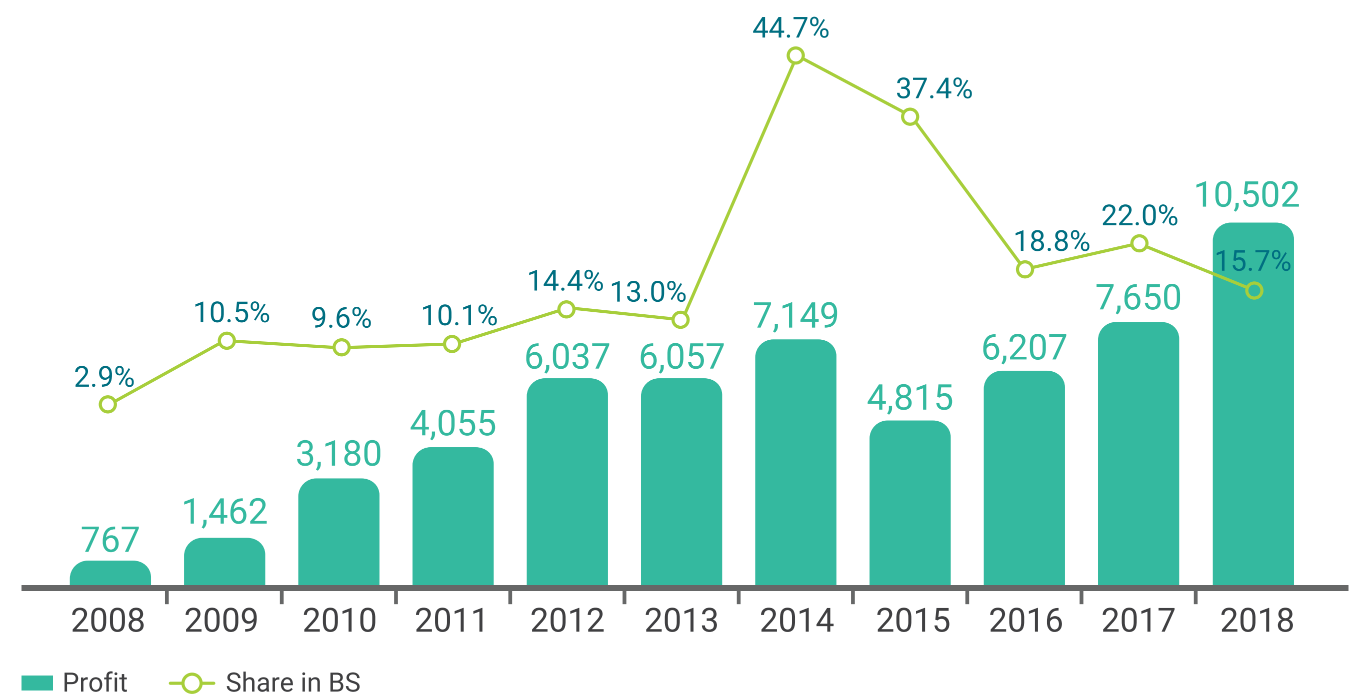
1st by Total Capital
AMD bn



1st by Liabilities
AMD bn

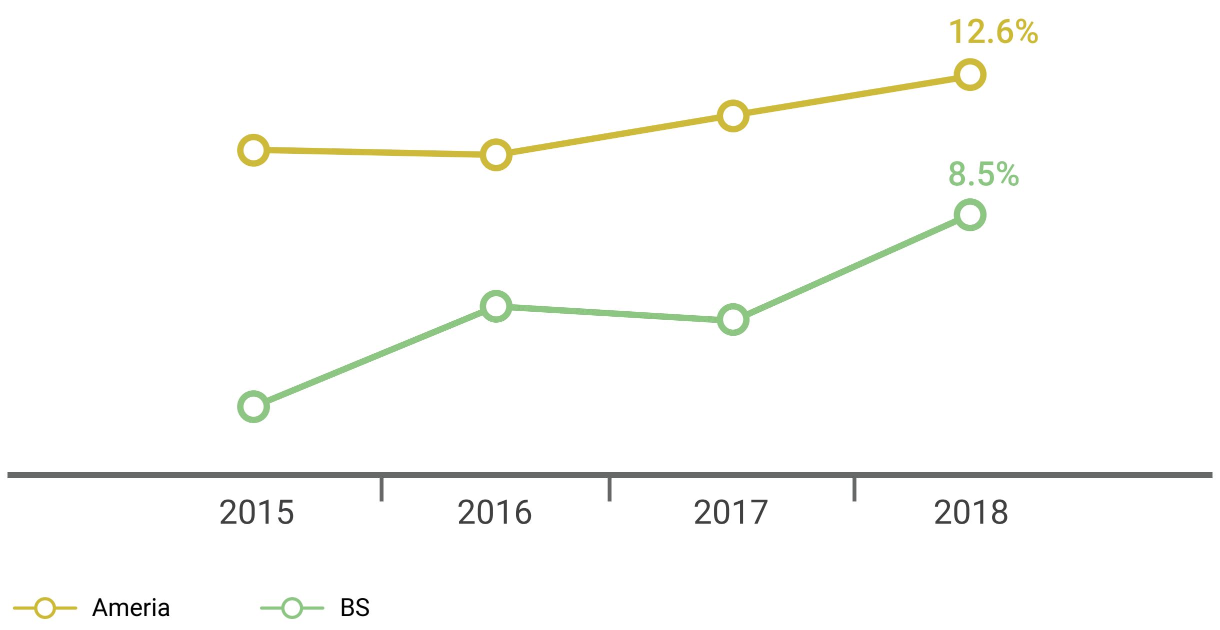


1st by Profit
AMD mn

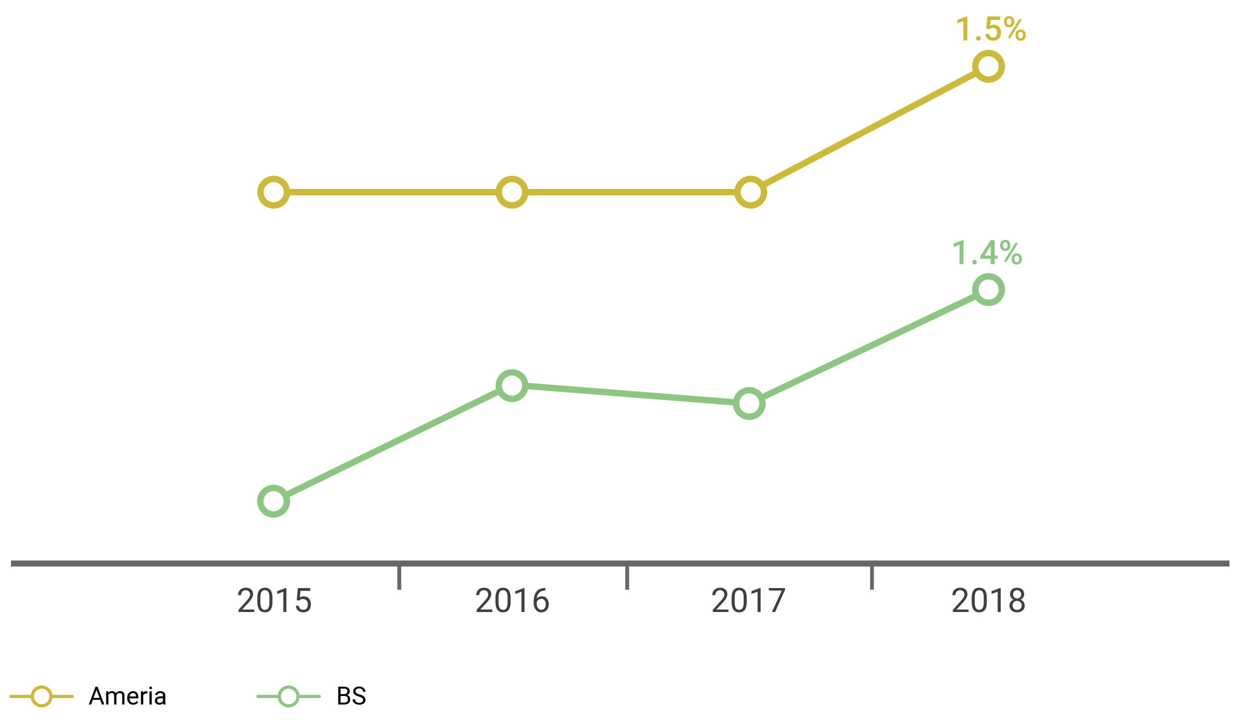


- Retaining top positions by total capital due to a new investor early in 2018, the Bank continued to boost its leadership. In 2018 the Bank's total capital grew by AMD 19.8 bn or 28.4% over the previous year, the share in the banking sector by total capital reaching 11.6% vs 10% in 2017. Total growth in the sector was 10%.
- The Bank's profit increased by 37.3% Y-o-Y.
- Ameriabank's ROA and ROE are quite ahead of banking sector average; indeed, the Bank has always paid careful attention to its profitability indicators.
- The Bank has always been very careful towards its portfolio quality and always maintained the NPL indicator at minimum level.

ROE Dynamics: Banking Sector and Ameriabank



ROA Dynamics: Banking Sector and Ameriabank



STRATEGIC REPORT
BUSINESS MODEL AND STRATEGY

The year 2018 was another quite successful year of operations for Ameriabank. The Bank further strengthened positions among leading banks in Armenia, re-affirming its role as a competitive, rapidly growing, stable, modern, and liquid financial institution with untapped opportunities for further growth and development.

With a special focus on banking services and quality, the Bank has also positioned itself as a leader in innovation and service standards. Moreover, the Bank has continually honed its work organization and corporate governance practices, customer service technology, and constantly works to enhance its product mix, build a skilled and professional staff and ensure that the required resource base is always available.

The Bank re-affirms its position to pursue its adopted strategy of building a universal bank. 2018 was another year of exceptional work in the following directions: the Bank enhanced the list of retail products and services and continued investments in branch and ATM network expansion. Moreover, changes in the structure of the Retail Banking Department and respective business processes were implemented, which resulted in a more active retail business. The share of retail and SME has been consistently growing over the past years and despite the fact that our portfolio here has grown 6-fold since shift to universal bank model, there is still another mile to go before the target is reached. Now, the Bank is in the second stage of internal re-engineering and upgrading, tailoring processes, products and channels pursuant to demand from customers. A larger leap is expected with more active exploitation of digital products and channels. The Bank has launched a digital innovation project that should tackle this aspect of business re-modelling and digitalization in general.

The Bank's strategy and its respective actions are anchored on the adopted Mission and Vision.

MISSION

To improve the quality of life by:

- Providing world-class financial services and business solutions to our clients
- Implementing business and social projects, significantly impacting the well-being of the society
- Creating unique corporate culture and development model of an international company, uniting the efforts of successful people
- Consistently increasing our shareholder value

VISION

To improve the quality of life by:

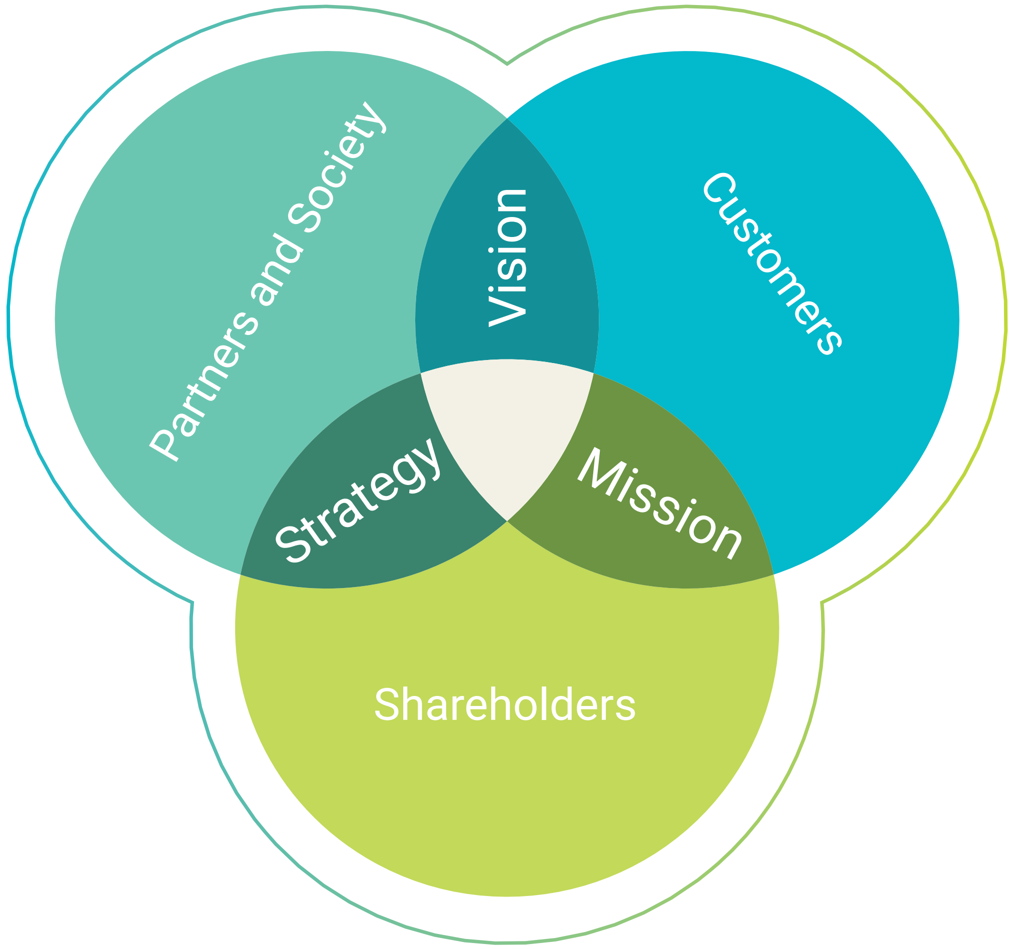
- To become an international company, providing financial and business solutions
- Be service quality and efficiency leader in target markets, uniting exceptional people with common values

Though the Bank's operations are largely guided by the Mission and Vision statements, the Bank has also identified key focus areas for medium-term development that serve as a base for business planning and decision making.

- Be MARKET LEADER: expand more rapidly than the system at large, and explore M&A opportunities. To maintain market leadership, the Bank plans to further optimize regulatory capital, measure profitability per RWA, boost non-interest income, further enhance its consumer base, as well as improve cross-selling based on customer preferences.
- Improve EFFICIENCY: ensure adequate level of ROE and maintain low level of cost to income ratio. In order to improve efficiency, the Bank plans to implement a number of projects to automate internal processes and functions, and finalize organizational & business model optimization.
- Increase DIVERSIFICATION: focus on retail & SME and increase the share of transactional banking. As a continuation of the Bank's strategy, we will continue to stimulate retail & SME lending in years to come, offering financing and comprehensive solutions to existing and potential customers.
- Enhance CUSTOMER EXPERIENCE: be customer-centric in all propositions and ensure superior net promoter score and customer experience index. The Bank constantly contributes to continuous learning, development and motivation, which should improve communication skills of the staff, provide better customer service, and enhance customer satisfaction. The Bank also conducts market analysis to understand needs and preferences of customers and continuously tailor propositions in line with changing needs of the market.
- Boost DIGITAL TRANSFORMATION: become a leader in distance banking and automation where possible. The Bank will be making significant and long-term investments in this area to ensure that it is a leader in digital transformation. Digital channels should provide opportunity to increase the number of customers and distance banking users, while digital products should ensure speed and ease of customer service.

At the current stage of its development, the Bank also prioritizes data-based decision making. To this end, the Bank has begun enriching its databases and preparing for more sophisticated analysis to support better decision making. We remain committed to running a responsible business and nurture the positive culture and team spirit that has formed over the previous years of operations. It is also important to note that the Bank has fully implemented corporate governance best practices, with a diversified board and three functional board-level committees.

Based on the analysis of the socio-economic situation in Armenia as well as conjecture on potential developments in banking services and actions of main competitors, the Bank still sees untapped opportunities for growth that will be exploited during the coming years.



Note: For management purposes, the Bank is organised into three operating segments based on products and services (see Financial Statements, Segment information).

Over the last years development of retail banking was one of our key strategic objectives. The Bank makes business decisions with its customers' satisfaction in mind, and with customer expectations rising constantly Ameriabank's strategy is to become a more customer-focused, simple and effective bank than ever. Now, as a major full-service retail bank, Ameriabank is the leader in key market segments and constantly works towards strengthening its position on mass retail market. To further improve customer experience, the Bank launched new products and came up with several new initiatives in 2018.

NEW PRODUCTS & PROPOSITIONS

Continuing to invest in development of its business, Ameriabank launched several innovative products and solutions to make banking – both daily operations and important financial decisions – easier for its customers. Considering that digital transformation is the main development vector of financial sector, driven by customer expectations and competition, and having customer satisfaction at the core of its business, Ameriabank continues to simplify existing business processes.

All the developments and innovations are aimed at improved customer experience and efficiency.

The following new launches were made in 2018:

- Consumer finance for mass market. The entire decision-making process has been automated and takes a few minutes to complete, enabling customers to get and use the loan amount directly at the merchant. The Bank's list of partner merchants constantly grows and currently includes 83 merchants.

- New financing solutions with totally re-engineered business processes both for individuals and small businesses. Ameriabank's new online scoring-based lending solution enables customers to apply for and get loans online within minutes and in certain cases without having to visit the Bank personally. Cutting down processing time per case, combined with self-service solutions, reduces both processing time and time-to-money from weeks to several minutes. The solution was an immediate success and currently covers more than half of all credit applications in selected segments and product areas. Financing decisions are automated and take just a few minutes. Ameriabank's digital solutions enable to manage the significant customer inflow and provide good customer experience.

- In mortgage business the Bank closely follows real estate market developments and in 2018 started cooperation with property developers. The list of partner developers is growing and by the end of 2018 had reached 15. Customers wishing to buy property from Ameriabank's partner developers are eligible for simplified loan procedure: higher LTV ratio, no need for property appraisal as LTV is calculated based on developer's reference provided to the customer. This cooperation enables the Bank to manage the significant customer inflow and increase its mortgage loan portfolio.

- SMART accounts, first introduced in Q4, are yet another solution to achieve better customer experience. With just a smart device and remote connection, becoming an Ameriabank customer now takes less than 5 minutes without need to visit the Bank personally. Opening SMART accounts remotely gives access to certain operations. Once the customers are fully identified, they get unlimited access to all banking operations.
- Just at the end of 2018 Ameriabank became the first bank in Armenia to introduce VisaPay Sticker for contactless payments, a smart, mobile and secure way to pay. Stickers are easily attached to a wallet, smartphone or other items and can be used to make contactless payments at any PayPass terminal. Contactless technology allows the customer to pay for goods and services with a simple tap. The embedded chip and antenna enable customers to wave their card over the reader at the point-of-sale terminal. Contactless payments are made in close physical proximity. There is no need to hand the card over to salesperson, so the card never leaves your hand when making a payment, which reduces the risk of fraud and keeps the card always under control. In 2019 all Visa and MasterCards of Ameriabank will come complete with contactless technology.
- Online motor third-party liability insurance enabling customers to buy insurance online within 5 minutes. Customers are free to choose the insurance company from the list of the Bank's partner companies.

CLIENT SERVICE AND CUSTOMER EXPERIENCE

Customer satisfaction is an absolutely essential target for Ameriabank. The Bank maintains and strengthens the positions built in recent years. Ameriabank's ambition is to be ranked among the top by customer satisfaction. Throughout the year, the Bank continued its efforts to create the best customer experiences by developing new competitive solutions and advisory services to meet each customer's expectations, because its goal is to ensure that Ameriabank's customers are satisfied and have the best experience every time they are in touch with the Bank.

Ameriabank is encouraged by the performance of its Net Promoter Score (NPS), since despite the dramatic increase of client base by 97%, NPS arrived at the end of the year with an improved score of 67.4% (2017: 64.9%).

To cope with increased business volumes, we further strengthens its Multi-Channel Distribution Network.

- New branch – "Kamar" – in downtown Yerevan at Kamar Business Center.
- New branch – "Nor Nork" –at a shopping mall in Yerevan.
- New branch – "Jermuk" – in Jermuk city center.
- Sayat-Nova branch shifted to prolonged business hours.
- Layout of some branches improved to make it possible to serve more clients.
- Increased range of services provided by Contact Center with the latter becoming an important sales generating center.
- Ameriabank's services included into third party terminal networks (e.g. by the end of 2018 the Bank's services were available in more than 3,500 Telcell, Easypay, Mobidram and iDram terminals).
- Further improvement of internet/mobile banking solutions.

Ameriabank is increasingly investing in higher service level by delivering its offerings online and through self-service solutions. The increase in digitalization is also making it much easier for customers to interact with the Bank whenever it suits them. Digital solutions can ensure a convenient and secure everyday banking experience, and this is reflected in a 40% YoY increase in the total number of Ameriabank's internet/mobile banking users. Total number of transactions via remote channels comprised **over 4,000,000.**

CLIENT BASE & DEPOSITS

Due to improved customer experience and new undertakings the Bank saw a high level of customer activity and welcomed a good number of new customers. Retail customer base has increased by 112% comprising 203K by year-end. Despite low deposit interest rates, the deposit base continued to increase. The Bank posted a 25% YoY growth in retail demand deposits by year-end, with a total portfolio of AMD 74 bn, and 6% growth of retail time deposits with a total portfolio of AMD 170 bn. The growth of deposit base is an important indicator for the Bank since it is perceived as reflection of customer trust and loyalty. By year-end the portfolio of the Bank's outstanding bonds was AMD 46.2 bn, AMD 36 bn of which was acquired by individuals.

PAYMENT CARDS

Payment card business has always been among the strategic priorities of the Bank both from quantity and quality perspectives. The number of issued cards has increased by 31% in 2018.

The Bank maintains a leading position on the market by e-commerce and POS-business. In 2018, the number of virtual POS terminals increased by 24%, totaling 316, and the total volume of transactions increased by 147%. The number of POS-terminals increased by 25% to reach 2,021 and the total volume of transactions increased by 46%.

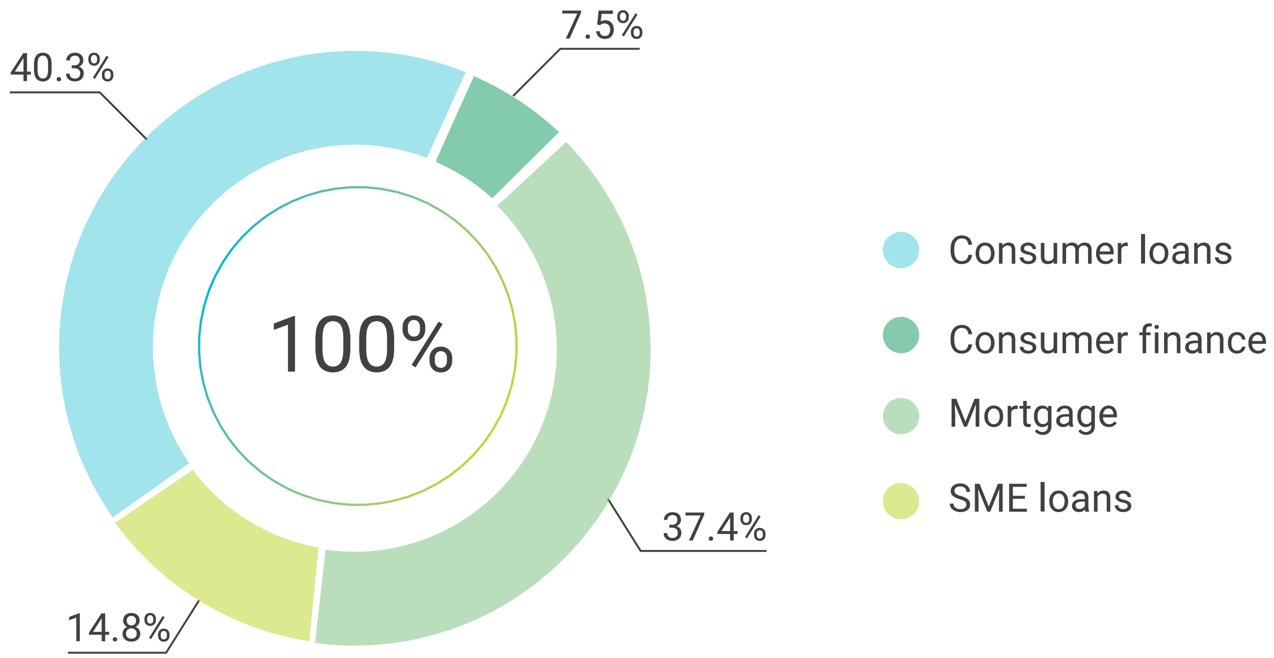
RETAIL LENDING

Ameriabank has successfully increased its business volumes, while at the same time maintaining sound credit quality and keeping impairments at an acceptable level.

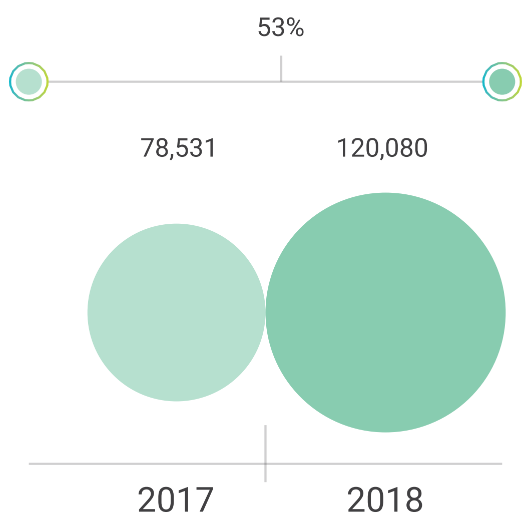
By year-end the Bank posted a 53% YoY growth in retail loan portfolio to a total of AMD 120 bn.

Our retail banking business delivered good performance in 2018. Operating profit increased by 39.6% to AMD 15.1 bn as of December 2018.

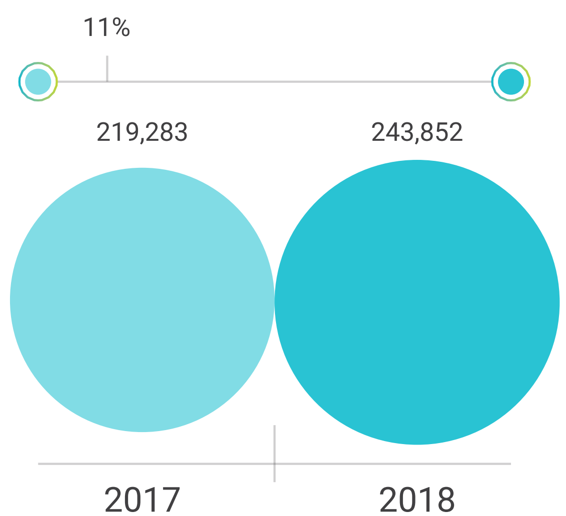
Breakdown of Ameriabank's Retail Segment Gross Loan Portfolio



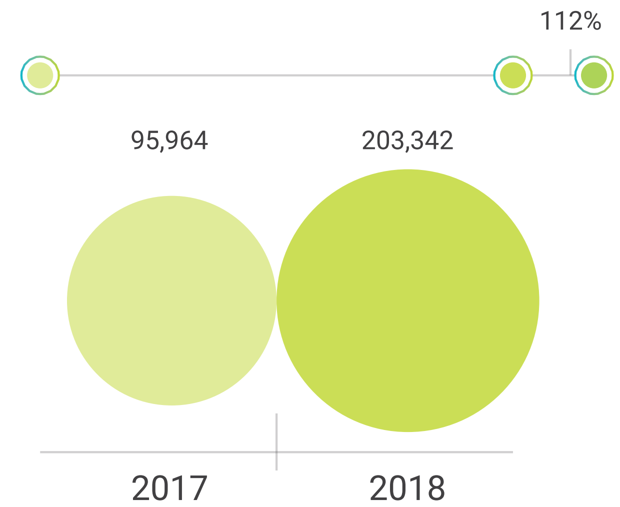
Loans
AMD mn



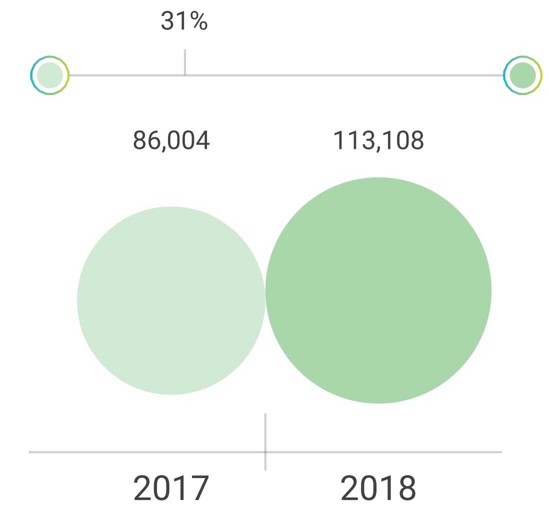
Deposits & Bonds
AMD mn



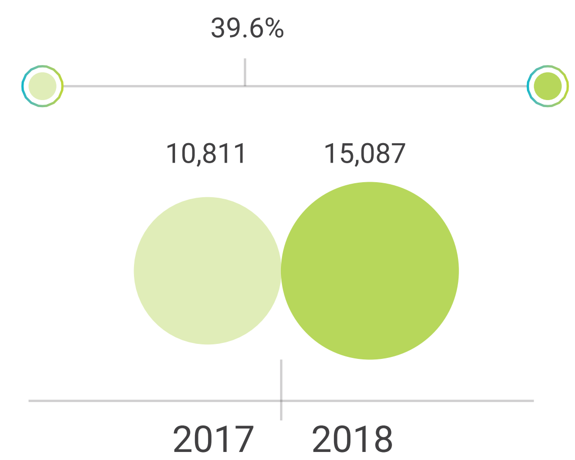
Clients



Number of Payment Cards



Operating Profit
AMD mn



STRATEGIC REPORT
CORPORATE BANKING

Ameriabank stands out in the banking sector with its sterling reputation as a reliable strategic partner. The Bank demonstrates an individual approach to each client, offering tailored solutions comprising a mix of various financial tools.

During the reporting period, Ameriabank maintained the 6% growth rates of its corporate client base. The portfolio of corporate demand deposits increased by nearly 32% vs 2017 and reached AMD 134,169 mn, while corporate time deposits and bonds reached AMD 60,464 mn. In 2018 Ameriabank continued to issue corporate bonds and successfully placed all of them.

In work with corporate clients Ameriabank applies the following principles:

- Deliver fair outcome for customers
- Build proactive relationship management and long-term partnership
- Provide professional on-the-ground expertise and tailor-made solutions
- Enable growth and unlock potential
- Bridge customers with opportunities

During 2018, the Bank maintained its leading position in corporate lending for the 9th consecutive year. The loans to corporates amounted to AMD 443,815 mn (including balance sheet LCs amounted to AMD 8,306 mn).

In 2018 SME remained one of the main strategic sectors of financing. In particular, the Bank continued to increase the geography and segments of SME lending by offering competitive and new financing products. The Bank's targeted SME lending policy resulted in 13% increase of SME loans to corporate segment to reach AMD 75,855 mn (equivalent to USD 156.8 mn) as of year-end 2018. The growth was mostly fueled by more financing to innovative and green SME projects (solar, wind plants, etc.) with competitive rates and high-quality service.

SME financing was targeted to the main developing industry sectors in Armenia – energy, agriculture, construction, tourism, etc. The Bank placed stronger emphasis on energy efficiency and energy saving projects, offering most favorable terms of financing.

Individual approach to each client continues to be an important part of the Bank's financing procedures.

FINANCE LEASE

In 2018 Ameriabank's finance lease operations held a stable position in the local market, having grown by 30.80% YoY as of year-end. The main advantage of finance lease is financing without collateral. Our customers are companies in most diverse industries which use our leasing products to purchase vehicles, commercial property, equipment and machinery, solar PV systems, etc. Ameriabank has more than 40 vendors as reliable partners, each of which is a leader in its particular sphere – official car dealers, representatives of medical equipment manufacturers, suppliers of construction machinery, importers and manufacturers of PV plants. Jointly we develop and present to our clients various offers and benefits. Clients are very interested in solar plants under special agreement between Ameriabank and EBRD as part of Green Economy Financing Facility. For this purpose we developed SOLAR LEASING, a special lease product to highlight the advantages of finance lease.

FACTORING

In 2018 factoring continued to be actively implemented as another financing tool for short-term funding purposes. As of year-end 2018, Ameriabank's factoring gross portfolio amounted to AMD 10,720 mn which represents a 59% increase as compared to 2017. A significant portion of transactions is export factoring like in previous years. In the scope of export factoring, Ameriabank closely cooperates with the Export Insurance Agency of the Republic of Armenia – this increases the range of opportunities for exporters to have more reliable and seamless financing options with their overseas partners.

The Bank's factoring portfolio is rather diversified, covering such industries as energy, construction, trade, public services, etc. A flexible financial tool, factoring delivers funding to market players that encounter working capital and cash flow shortages during their ongoing business cycle, at the same time enabling them to network with their partners on deferred payment terms and conditions.

Given clients' financing needs, factoring best suits them for assigning their receivables to the Bank at discounted prices and thus receiving instant cash payment with short maturities to keep up with their financial operations.

TRADE FINANCE

Ameriabank's leading role in Armenian trade finance market has been recognized through multiple awards of prestigious international organizations for many years. Among such awards are: Most Active Issuer in Armenia by EBRD, Most Active GTFP Issuing Bank in the Caucasus by the IFC, Deal of the Year by EBRD for financing the building of the new generation fiber-optic network in Armenia, Deal of the Year–Energy Efficiency by EBRD for greenhouse energy efficiency improvement project, Best GTFP Issuing Bank for Energy Efficiency by the IFC. In 2018 alone Ameriabank received 3 new honorable awards: **Best Issuing Bank Partner in the Caucasus and Central Asia** by the IFC, Leading Partner Bank in Armenia by ADB, Award for Excellent Cooperation in Trade Finance by Commerzbank AG.

Ameriabank is actively involved in Trade Facilitation Programs with all major IFIs: EBRD (TFP), IFC (GTFP) and ADB (TFP). Remarkably, in addition to its issuing bank status with these IFIs Ameriabank was also the first Armenian bank to receive confirming bank statuses under the Trade Facilitation Program (TFP) of EBRD in 2013 and under Trade Finance Program (TFP) of ADB in 2018. Ameriabank benefits from large credit limits provided by these IFIs for trade finance development.

Due to agility, high quality of service, and active involvement in most of impact projects in Armenia Ameriabank has developed a sustainable cooperation with a number of international banks.

Ameriabank has a long history of cooperation with Commerzbank, including a number of award-winning transactions. The Uncommitted Bilateral USD/EUR Trade Finance Facility with Commerzbank is in force since 2010.

STRATEGIC REPORT
CORPORATE BANKING

Ameriabank's corporate banking business delivered good performance in 2018. Operating profit of Corporate banking increased by 45% to AMD 16 bn as of December 2018.

Through years of cooperation Unicredit has proven to be a reliable partner for Ameriabank, providing trade finance services under established credit limits. Ameriabank and Unicredit are continuously expanding the areas of cooperation, creating new opportunities for clients involved in external trade. The execution between Ameriabank and Unicredit of a Master Trade Loan Agreement in 2017 became a further step towards expansion of opportunities for trade facilitation in Armenia.

Ameriabank and Citibank have effectively cooperated for years, gradually increasing the amounts and numbers of transactions and thereby providing cheaper financing to Armenian companies. In 2011, Ameriabank and Citibank signed CARTA (Continuing Agreement for Reimbursement of Trade Advances). Due to successful cooperation under this and other agreements Citibank has increased finance limits for Ameriabank.

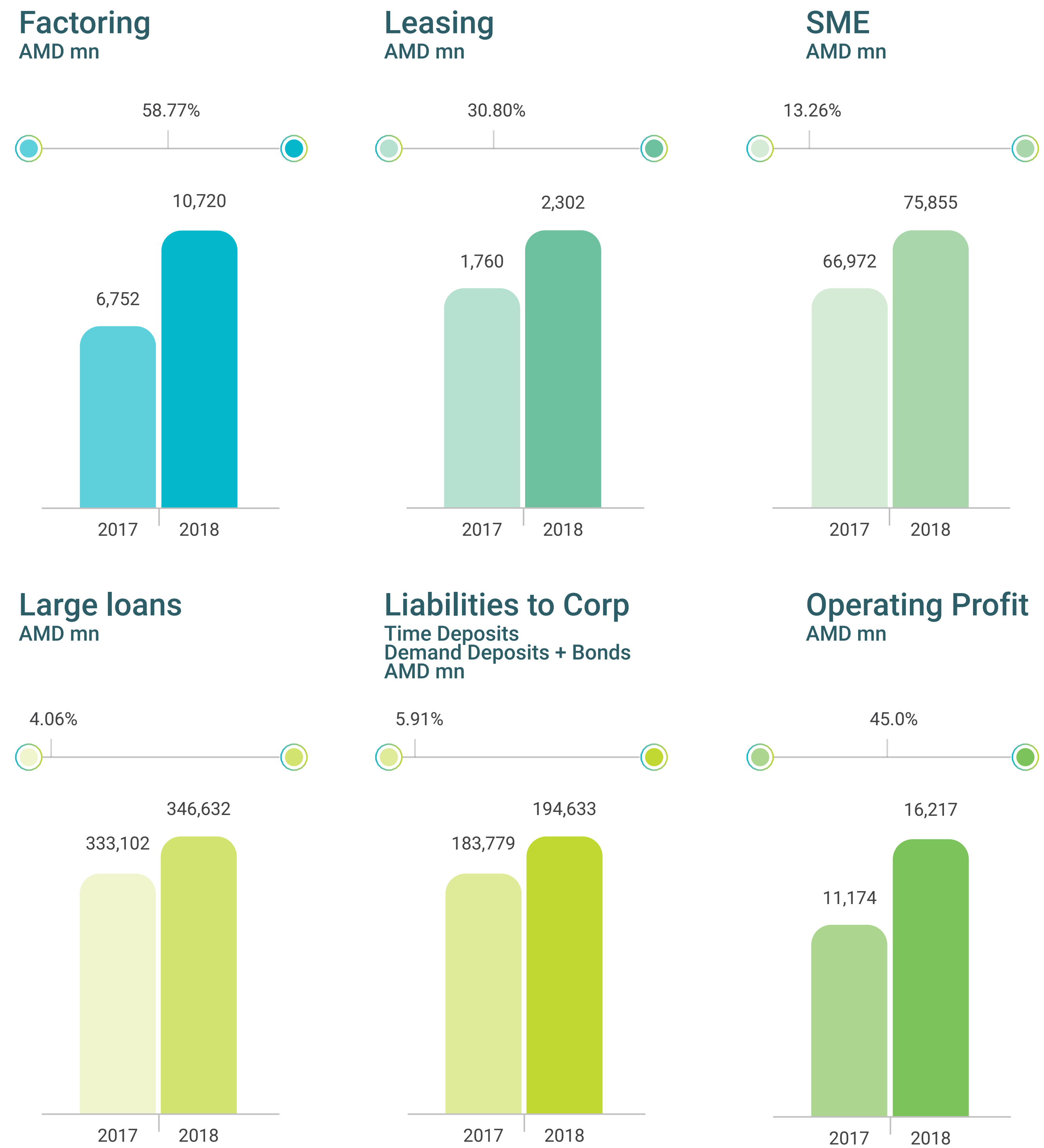
Cooperation with KBC Bank N.V. began in 2016 and they have already proven to be a sustainable partner for Ameriabank; our cooperation is developing continuously.

As of year-end 2018, total financing limit obtained by Ameriabank from major commercial banks and IFIs went beyond AMD 80 bn.

By building close relationships with its clients, the Bank is able to offer sensible advice and innovative solutions for clients' financing needs. In 2018 the Bank proved once again to be a reliable, dynamic and trusted business partner in trade finance. Particularly, the volume of LCs and guarantees issued by Ameriabank increased by 50% to reach AMD 22.4 bn.

Thanks to fundraising under LC scheme, the Bank, in cooperation with IFIs and a number of prominent commercial banks, provides short- and mid-term financing at below-market rates to support import transactions. During 2018 Ameriabank was funding trade by issuing local and international payment instruments, servicing export and import operations, providing direct financing of import and export transactions to local manufactures and raising funds from leading global banks and IFIs. Specifically, in 2018 the volume of finance attracted from partner banks and IFIs for trade purposes exceeded AMD 57 bn.

During the reporting period Ameriabank successfully completed several deals of national importance in such sectors as manufacturing, greenhouses, mining, metallurgy, commodity financing. These were particularly impressive by their volume and importance not only for the local market but also the region as a whole.



STRATEGIC REPORT
INVESTMENT BANKING AND TRADING

Ameriabank is the leading provider of investment banking and trading services in Armenia. With its debuts and landmark transactions, Ameriabank is paving the way for a local financial market to develop.

Combined expertise enables us to deliver wide coverage of financial solutions, such as corporate finance, capital markets, M&A, direct investments, FX and securities brokerage, securities registration and custody services provided by the Depositary through the Bank.

In 2018, for the third time in a row Ameriabank was awarded the Best Investment Bank in Armenia by Global Finance magazine.

CORPORATE FINANCE ADVISORY

Ameriabank's Corporate Finance (CF) Unit provides stand-by support on various corporate finance matters and offers tailored solutions for Ameriabank's clients. Our CF team includes professionals who advise clients on an array of topics, including debt and equity fundraising from non-public capital markets, credit rating procurement and funding strategy design.

In 2018, while advising Ameriabank on CF matters, the team successfully concluded a senior loan agreement with Symbiotics's Micro, Small & Medium Enterprises Bond issuance program in the amount of USD 11.5 mn with a possibility to increase the amount by an additional USD 10 mn in hard or local currency. In April 2018 a EUR 25 mn loan agreement was signed with the Eurasian Development Bank aiming to develop small and medium-sized business sector in Armenia. Another loan agreement was executed in May, 2018 with the Black Sea Trade and Development Bank in the amount of USD 15 mn. Furthermore, close to year-end Ameriabank and FMO (Dutch Development Bank) signed a EUR 40 mn loan agreement aimed at financing renewable energy and energy efficiency projects in Armenia, as well as young and female entrepreneurs in the country.

It should be mentioned that in 2018 the focus of CF practice significantly contributed to the Bank's future growth not only with debt transactions, but also with equity deals. At the beginning of the year, the Asian Development Bank (ADB) and Ameriabank signed an equity investment agreement to inject up to USD 30 mn to strengthen Armenia's banking sector and further promote financial inclusion in the country. This transaction represents ADB's first equity investment in Armenia.

Throughout the last 8 years, the cumulative volume of funds attracted from IFIs/DFIs reached USD 750 mn, including funds raised from the European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), the International Finance Corporation (IFC), Dutch Development Bank (FMO), German Investment and Development Company (DEG), Eurasian Development Bank (EDB), Development Bank of Austria (OeEB), PROPARCO, Black Sea Trade and Development Bank (BSTDB), OPEC Fund for International Development (OFID), responsAbility Investments AG and Global Climate Partnership Fund (GCPF). The list of partners, however, is not limited to IFIs/DFIs only, but also includes a number of major international commercial banks.

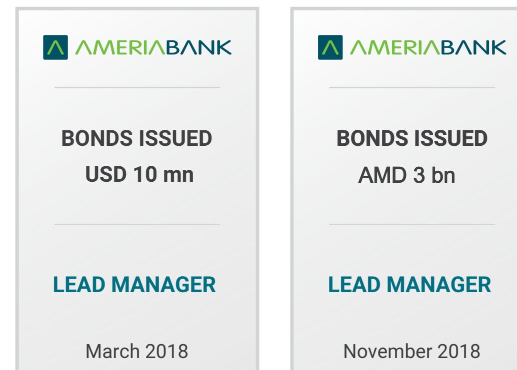
Following the recent political changes in Armenia and anticipated more transparent and competitive business environment, the demand for CF advisory is expected to increase significantly. Ameriabank is keeping abreast of recent developments, in order to be the pioneer as and when opportunities arise.

CAPITAL MARKETS

With its dedicated and experienced capital markets team, Ameriabank offers full-range services to local debt and equity issuers, including corporate bond originations, IPOs/SPOs, market making services and IPO advisory. In 2018, Ameriabank maintained its leading position in the local capital market with 7 closed bond projects totaling around USD 52 mn. Ameriabank successfully allocated 5 tranches of USD bonds with a total volume of USD 41 mn. The Bank also continued its active participation in local currency bond market allocating 2 tranches with a total volume of AMD 5 bn.

In 2018 Ameriabank successfully redeemed 3 bond tranches with total redemption amount of USD 20 mn.

As of 31 December 2018, the total outstanding amount of Ameriabank bonds comprised USD 95.6 mn which made up around 29% of the overall corporate bonds market in Armenia.



Currently Ameriabank has 11 bond tranches listed and floating on Armenian Stock Exchange, where secondary market liquidity is ensured by engaged market makers for all tranches.

Ameriabank is also one of the leading market making service providers in the local market with total exposure of USD 45 mn.

Ameriabank was also active in terms of providing IPO and DCM advisory to a number of corporate clients, with expected deals to be materialized in 2019.

Ameriabank's leading position on local capital markets was one of the most important factors considered by Global Finance magazine for naming Ameriabank the Best Investment Bank in Armenia in 2018.

Ameriabank still advocates the capital market development in Armenia and in the region, believing in and contributing to the promising future of both local equity and debt securities markets.

MERGERS & ACQUISITIONS

Ameriabank's M&A practice is providing investment advisory services to enterprises and investors seeking advice on sale, acquisition or merger of companies. In addition, the Bank is offering a wide range of M&A advisory services: identification of potential investors or targets, preparation of investor outreach documents (teaser, information memorandum), transaction design and financial modeling, business valuation reports, synergy valuation report, post-deal review and analysis, etc. Our practice is leveraging the local market knowledge and networking with the business community in Armenia and abroad based on successful business operations of Ameria Group of companies.

In 2018, the Bank reinforced its leadership on the market within two core M&A business lines: buy-side advisory and business valuations. One of our flagship projects in 2018 was the advisory on raising mid-term refinancing facility for one of the highest credit quality corporates in the country. Another M&A deal was successfully closed during the second half of the year with buy-side advisory to a Switzerland-based company on acquisition of local companies and assets. In Q3 2018 we advised an LSE AIM-based company in its acquisition of a local company, and also assisted on sell-side a local company in selling its 100% shares to a strategic investor.
In 2018, we were more active in the finance sector, commercial real estate, mining, HORECA, telecom and IT industries.

AMERIABANK	AMERIABANK	AMERIABANK	AMERIABANK
Refinancing	Buy-Side Advisory	Acquisition Finance	Sell-Side Advisory
Local company	Swiss company	LSE AIM-Listed Company	Mixed Use Commercial Real Estate
Deal size: USD 120 mn	Deal size: USD 75 mn	Deal size: USD 55 mn	Deal size: $53 mn
Lead Arranger 2018	Lead Arranger 2018	Exclusive Arranger 2018	Exclusive Arranger 2018

Ameriabank's M&A team also leads potential M&A projects of Ameriabank, staying opportunistic and advising the Bank on potential targets regularly. Minimum regulatory capital requirement set by the Central Bank of Armenia, effective since 01 January 2017, was an M&A catalyst in the banking sector during the last three years, and while accompanying M&A buzz did result in a couple of small ticket deals, however, the landscape still remains flat with high propensity to systemic deals yet to come, which will lead to inevitable consolidation in the banking sector. At the same time, it should be mentioned that M&A transactions are not the end result, but rather a path to achieve the Bank's strategic goals earlier. Hence, Ameriabank's M&A team is carefully analyzing any target to ensure that it is a best fit with the Bank's strategic priorities and to reveal shareholder value accretive M&A opportunities.

TRADING

According to FY 2018 results, Ameriabank ranked 1st in the local market by trading operations. In 2018 net income from trading (foreign exchange, gold and securities) and revaluation increased to constitute a significant 16% of banking sector trading operations.

Armenian foreign exchange market was relatively stable during 2018 and there were no significant exchange rate fluctuations. The Bank remained the leader of foreign exchange market and reported a nearly 40% growth in the number of foreign exchange transactions of clients. Ameriabank also continued to be very active on Armenian and other sovereign Eurobonds market and continued to be one of the largest corporate bond investors in the Armenian banking sector.

In 2018, the number of Ameriabank clients using brokerage services grew by more than 28%. Simplified brokerage account opening process and broader availability of brokerage services resulted in sharp increase of the Bank's profit from brokerage services – more than 100% in the reporting year.

Ameriabank's brokerage services are available on more than 100 specialized platforms in 23 countries worldwide, enabling clients to trade in multiple securities and keep track of latest market developments. Brokerage accounts with Ameriabank give access to all major stock exchanges worldwide such as NYSE, NASDAQ, AMEX, ARCA, CBOT and others (US), Toronto Stock Exchange, Montreal Exchange (Canada), LSE, LSE International Order Book (UK), Frankfurt Stock Exchange FWB (Germany), Vienna Stock Exchange VSE (Austria), Euronext Brussels Stocks, Nasdaq OMX Europe NUROEN (Belgium), Euronext France SBF (France), Swiss Exchange SWX (Switzerland), Borsa Italiana (Italy), Bolsa de Madrid (Spain), Tokyo Stock Exchange TSE JPN (Japan), Hong Kong Stock Exchange SEHK (China), Australian Stock Exchange ASX (Australia) and many others. The Bank's brokerage clients can trade in securities denominated in multiple currencies and follow quotations in real time 24 hours a day.

Active participation in local foreign exchange and securities markets in 2018 earned Ameriabank's trading team several awards, namely: Best Foreign Exchange Provider by Global Finance; Most Active FXT User by Thomson Reuters; Best Account Operator-Custodian of Depository System in Foreign Securities Market and Best Member of Stock Exchange Settlement System by Armenia Securities Exchange.

RISK MANAGEMENT

RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Risk management policy of Ameriabank sets:

- Risk management objectives and principles
- Bank's risk appetite structure and setup rules
- Distribution of authorities between the Bank's decision-making bodies and other functions in relation to risk-bearing operations
- Key benchmarks and criteria of operations
- Terms and conditions of exercising control over them
- Other provisions

Risk management is implemented by the Bank's Board of Directors, Management Board, managers and other employees, starting from development of the Bank's strategy and involving all aspects of the Bank's operation. The aim of the Bank is to identify and manage risks associated with its operations and control the Bank's risk appetite (the maximum level of risks the Bank is willing to undertake in order to reach its objectives). Ameriabank's risk management policy is an integral part of the Bank's development plans and serves as a basis for regulating the Bank's risk-bearing processes. It is a unity of principles adopted by the Board of Directors aiming to effectively organize the Bank's operation by minimizing the likelihood of adverse events. Provisions of the risk management policy are applicable to the Board of Directors, Management Board, Chairman of the Management Board - General Director, committees and all employees of the Bank. Risk management policy is revised on a regular basis, depending on the Bank's strategy and current or expected economic environment.

The Bank's risk management department performs risk assessment on monthly, quarterly and annual basis and reports the results to the Management Board or specialized committees (Credit Committee, Assets and Liabilities Management Committee, etc.), Board of Directors and the Central Bank of Armenia (CBA).

Primary goals of risk management in the Bank include:

- Achieving optimal quality of financial instruments portfolios in terms of maximum value for the Bank under acceptable risks
- Making all possible losses and risks predictable, measurable and manageable
- Maintaining all risk ratios at an acceptable level, with proper (expected) cushions above the limits

In order to achieve the risk management goals the following objectives should be fulfilled:

- Timely identification of potential risks in the course of the Bank's operation

RISK MANAGEMENT

RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

- Identifying factors impacting specific types of risks
- Conducting qualitative and quantitative assessment of specific risks
- Approving acceptable risk limits
- Collecting, processing and communicating appropriate information on potential risks to management bodies
- Approving the methods of internal control (monitoring) of risks
- Defining the responsibilities of the Bank's Board of Directors and members of executive body for managing specific types of risks
- Developing appropriate measures for managing risks
- Exercising control over their implementation

The following are the key conditions for timely identification of risks: regular monitoring of the Bank's key internal prudential standards and adherence to acceptable risk limits; regular analysis of changes in the Bank's balance sheet; adherence to the key prudential standards established by the CBA; various stress scenario estimates; availability of internal regulations for management of specific risks in the Bank, describing risk identification and management methodologies and mechanisms and enabling the Bank to address and manage risks in a timely manner.

The Bank's risk management policy is based on the following principles:

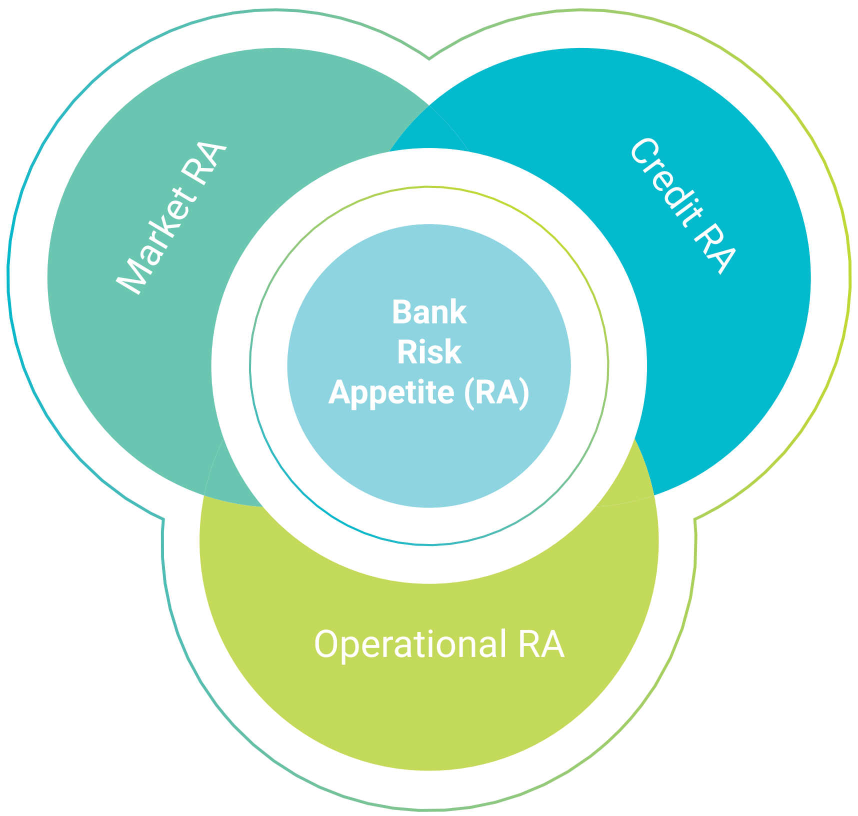
- Unified risk management system is implemented in the Bank as a key element of the Bank's strategic management.
- Risk management in the Bank has a proactive role and permanent and continuous nature. Risks are identified and assessed as part of all processes of the Bank and appropriate measures are constantly being taken to ensure their adequate management.
- The Bank's risk management system is based on a risk/return ratio of maximum accuracy. The Bank selects those risk-generating transactions which can be effectively assessed and handled.
- The Bank strives to get to know its clients and understand their financial needs. The Bank avoids establishing business relations without adequate information on clients' financial position. We follow the KYC (Know Your Customer) principle in our interaction with clients.
- Risk-generating instruments are approved by the "four-eye" principle, in some cases independent risk management specialists are involved, too (e.g. loan applications are approved by one credit officer and one authorized risk management officer). Approval process for each instrument is defined in details by appropriate policies and procedures.
- The scope of authorities (including approval limits) and responsibilities is clearly specified and documented for each of the Bank's instruments and processes. Moreover, internal controls are documented for each process.
- Any deviation from the Bank's policies and other internal regulatory acts must be authorized by the body approving the policy in question or the body having the appropriate authority (Management Board, Board of Directors).
- Each business within the Bank is responsible for identification and regular monitoring of risks.
- Management information systems (MIS) are in place, enabling more effective portfolio management.
- The risk management approach for each banking instrument (approval limits, acceptable parameters, portfolio volume, variances from adopted policies, etc.) is established by relevant internal regulations and/or policies and approved by the risk management department of the Bank.
- Internal audit regularly assesses the effectiveness of risk management function in the Bank.
- Management bodies regularly analyze and assess the Bank's operations.

The Bank's risk management system includes the following elements:

- **Risk appetite:** Board of Directors defines the acceptable level of losses/risk for each financial year in line with the Bank's goals and expected macroeconomic developments. The risk appetite is structured around all types of risks (credit, market and operational). All risk parameters and limitations are set depending on the risk appetite assigned to each type of risk.
- **Standards and reports:** this structural element includes specification of (i) instruments approval standards, (ii) risk categories, (iii) instrument-specific standards, and (iv) management reporting standards.
- **Limits and rules:** decision-making authorities, portfolio limits and appropriate rules are established for all financial instruments of the Bank.
- **Investment guidelines and policies:** the Bank's investment strategies, criteria and acceptable level of variances are established. These guidelines serve as a basis for the Bank's hedging, asset/liabilities management and other policies.
- **Risk/return ratio:** risk-return framework is a basis for investment decisions across all financial instruments of the Bank. Accordingly, appropriate employee incentive mechanisms are developed.

RISK APPETITE

Risk appetite is the maximum level of possible losses/risk the Bank is willing to undertake in order to reach its goals. Risk appetite should be adequate in terms of planned exposures and expected macroeconomic developments with proper cushions above key risk limits. Also, considered maximum losses/risks should be manageable and recoverable within a short period out of available resources without any negative impact on short/mid-term goals and plans of the Bank. The Bank's risk appetite cannot exceed some certain portion of the Bank's capital book value; it is distributed across credit, market and operational risks with an approximate ratio of 60%, 30% and 10%, respectively. Credit risk appetite is the amount of net losses on loans and advances issued by the Bank (loan loss allowance). Market risk appetite with regard to currency risk is the negative revaluation (loss) resulting from open FX position; with regard to floating rate risk, A&L maturity gap risk – possible losses resulting from interest rate changes; with regard to investment risk – losses resulting from revaluation of securities portfolio due to market price changes. Operational risk appetite is about losses resulting from operational failures in the Bank's processes/IT systems.
Risk appetite is managed by: ALCO/Large Credit Committee – and the Board of Directors, if the limit is breached.



KEY RISKS AND RISK PROFILE

As part of risk/return approach and distribution of attributable risk appetite the Bank uses different methods and tools to assess and mitigate risks. Normally, risks are treated as uncertainty about future negative occurrences. They are defined as the probability of occurrence of events likely to affect the Bank's operations and implementation of its strategic goals, together with possible losses. The risks to which the Bank is exposed or likely to be exposed include both internal and external circumstances which may endanger the continuity of the Bank's operations or have adverse effect on the Bank's equity or profit.

The Bank's risks are categorized into credit risks, market risks, operational risks and other risks.

Credit risk: the Bank is exposed to credit risk of losses due to failure of clients or counterparties to meet their obligations to pay outstanding amounts when due. Credit risk is the most material risk faced by the Bank as long as the Bank is engaged mainly in traditional lending activity with a simple balance sheet. Due to highly dollarized economy, currency-induced credit risk is a significant component of credit risk; it is about risks arising from foreign currency loans to unhedged borrowers. Credit risk also includes concentration risk, which is the risk associated with impairment of credit portfolio quality due to large exposures to single borrowers or groups of related borrowers.

A strong credit risk management function is critical for maintaining a balanced loan portfolio and delivering sustainable returns. For that purpose, a prudent credit risk environment has been established focusing on maintenance of efficient processes for credit risk identification, measurement, and monitoring. Credit risk management by appropriate credit risk teams – retail and corporate – is performed both on transaction and portfolio level. Credit risk management units are involved in transaction-level analysis, rating and approval of risks for each loan. Special internal risk assessment and rating methodologies are applied. The purpose of credit risk management is to establish effective oversight and quality monitoring of portfolio, as well as develop and maintain a credit risk management framework based on stress-testing, early warning and key risk indicators and parameters system and sector-specific analysis and monitoring.

The Bank uses a risk-oriented monitoring system to timely react to market developments, identify credit portfolio weaknesses and outline solutions to make well-reasoned risk management decisions. Monitoring processes encompass individual credit exposures, overall portfolio performance and external trends likely to affect the portfolio's risk profile. Early warning signals serve as an important early alert system for detection of credit deteriorations, leading to mitigating actions. Statistical analysis is applied to monitoring of overall portfolio performance. Credit risk management unit conducts regular oversight of monitoring and selective checks. Corporate credit risk management team is responsible for on-site monitoring of business loans. This process enables to promptly identify risky loans at an earlier stage and undertake appropriate actions.

The team analyzes portfolio trends on a regular basis, including total credit portfolio exposure, portfolio quality, migration analysis, concentrations and portfolio quality performance, and submits credit risk reports to the Credit Committee on a monthly basis. Reports on quality of credit portfolio are presented to the Management Board and Board of Directors on a monthly basis. With its credit risk management system the Bank is able to identify and mitigate risks by amending its policies in a timely manner.

Market risk: market risk assessment and mitigation in the Bank are based on the same risk/return approach with appropriate risk appetite. The latter is further distributed across the following risks: interest rate risks, price risks, currency risks, equity price risks. Market risk exposure arises from mismatches of maturity, currency and interest rate structure between assets and liabilities, all of which are exposed to market fluctuations of exchange rates, interest rates and yield curve shape. Market risk also includes the volatility of prices for securities, real estate or other fixed assets owned or used as collateral by the Bank.
Generally, market risks are managed by the Assets, Liabilities and Equity Management Committee (ALCO). The Bank aims to manage market exposures, set up limitations and a decision-making framework in order to keep possible market losses within the set risk appetite. Early warning and key risk indicators in line with a wide range of stress-tests are aimed to build up estimates for different market scenarios and help to understand the limits of adequate market exposures distributed across all market risk sources. Scenarios for stress-tests are regularly updated based on market conditions. The set of risk parameters is closely linked with and incorporated into obligatory actions, responsible persons, zones of risk level and reporting and decision-making rules. The whole system of market risk management is reviewed and upgraded on a regular basis in line with the Bank's product line development and market environment.

Currency risk: the Bank is exposed to currency risk due to large volume of assets and liabilities denominated in foreign currency (mostly USD), which in pair with weak liquidity in the local market become the reason of open currency positions. In such environment exchange rate fluctuations can affect the value of risk-weighted assets (RWA) and so put strong pressure in the the Bank's equity ratios. In order to mitigate currency risk, the Bank applies a value-at-risk methodology based on both historical and simulated rates considering historical correlations of various currency rates, jumps and probability distributions. The risk parameters system also includes aggregate open position parameters which are restricted by risk zones, decision-makers and actions to be taken in case of breach of limit. Several stress-tests with 3 main scenarios each are used for early prediction of currency risk, open position loss and any growth of RWA likely to affect the Bank's equity, CAR and liquidity. Additionally, Ameriabank uses a more complicated extreme value approach which is based on a simulation engine and provides currency risk measures of high confidence level used for hands-on exposure (expected loss) control.

Interest rate risk is the risk of drop in net interest income over a fixed time horizon due to changes in market interest rates. The other side of exposure is investment portfolio, as the major part of portfolio are rate-sensitive debt instruments, fluctuations in the yield curve of which can generate losses leveraged by duration. Another source of interest rate risk is the non-zero gap between assets and liabilities under floating rate (mostly LIBOR). Since floating rate lending products are not developed well in the local market, the Bank is exposed to floating rate volatility. Exposure to interest rate risk is controlled and mitigated via a large number of risk parameters covering fixed rate repricing gap value, unhedged part of floating rate position and securities portfolio. There are more than 30 different layers in the system of interest rate risk parameters. Securities portfolio risk is managed by a separate policy covering such aspects as portfolio parameters, stress-testing, decision-making limits with respect to asset allocation and early warning indicators, all of which are updated on a regular basis in line with growth of the Bank's business. The general policy set by the Board of Directors and managed by ALCO and Management Board implies limitation of exposure to interest rate risk to specific risk appetite. Possible loss is estimated based on stress-testing scenarios, statistical simulations, value-at-risk and expected shortfall measures.

Price risk: the Bank is exposed to price risk in terms of decrease of credit loss coverage brought about by market fluctuations of prices for collateral and equity instruments. The main source of price risk is supposed to be the risk of depreciation of pledged real estate with increase in loss given default value as a result. The price risk also arises due to changes in market prices of equity instruments, commodities, fixed assets, movable collateral and other financial instruments affecting price. The price risk is essential in terms of credit risk, when real estate price fluctuations can generate large uncovered credit exposures due to increase of LTV (loan to value) ratio. Another part of credit risk, which is related to price risk, is the risk of decrease of creditworthiness of borrowers involved in international trade who could be exposed to market price risk of different goods and commodities. Possible systematic decay of creditworthiness of domestic businesses is part of macro environment risk monitoring. These risks are covered by tightening lending terms, setting limits for deviations and a solid decision-making order incorporated in total risk parameters system. The Bank has developed a set of action plans to ensure business continuity and early response to handle risks connected with possible price shocks estimated within the general stress-testing framework.

Liquidity risk is the risk that the Bank might not be able to meet its debt obligations without incurring essential losses. Liquidity risk can become essential if there are large gaps in maturity structure of assets and liabilities, if the balance sheet is too weakly diversified or there are large concentrations of exposure to a single major depositor and borrower, if financial market experiences currency shocks with resultant outflow or conversion of deposits into foreign currency, if there is lack of liquidity in the financial markets, problems with quality of securities portfolio, or if financial instruments (repos, swaps, overnights, etc.) suddenly become inaccessible. The Bank strives to ensure an adequate level of highly-liquid assets at all times, taking into account the volume of demand as well as short-term liabilities and total assets. The structure of highly-liquid assets in terms of currency, cash and non-cash funds is subject to the structure of the Bank's liability side. While allocating funds the Bank tries to ensure diversification of instruments and continuous reduction of concentrations through diversified distribution of funds per clients, groups of clients, tools, industries, etc. The Bank also defines and controls the weight of allocated funds in the Bank's total assets. Liquidity risk parameters (such as concentration, assets and liabilities gaps, interest rate gap, highly-liquid assets ratios and others) are set up in risk parameters system managed within the general risk management framework including risk level limitation, reporting principles, action plans, decision-making policies, responsible persons and stress-testing principles.

Operational risk arises in the Bank as a result of failure or malfunctioning of internal processes and systems, as well as human factor, or external events. The Bank performs identification and measurement of operational risks on a permanent and consistent basis. A unified system is used to manage the risk level. Before launching new processes or products the Bank assesses them in terms of their significance and the Bank's sensitivity to related operational risks. All parties and/or business units related to newly launched process or product should be involved in this review: business-processes and products are developed based on its results. Risk likelihood-impact assessment plays a critical role in assessment of process- and system-related risks. In order to be able to authentically calculate the likelihood and impact of incidents, the Bank keeps an automated database of operational incidents and losses. This database enables us to analyze sources of risks, their nature, identify the reasons and trends and perform an internal calculation of capital volume required to cover operational losses that may arise in future. We also implemented a model of capital distribution per product using an in-house methodology. This model enabled the Bank to identify the priorities in assessment of product issuance-related processes and systems. To be protected from major emergencies, the Bank holds insurance policies to cover assets, operations, liabilities and its employees in line with best business practices. The Bank insures assets against a range of risks, including fire, explosion, natural disasters, unlawful actions of third persons, strikes, riot, civil commotion, terrorism, as well as obtains third-party liability insurance coverage for its clients. The Bank also maintains Bankers' Blanket Bond and Directors' and Officers' Liability Insurance.

RISK MANAGEMENT
KEY RISKS AND RISK PROFILE

Strategic risk arises when changes in market conditions, customer behavior and technology appear, which may affect the Bank's performance negatively if adaptability to external environment is compromised. Like any other business institution, the Bank is exposed to strategic risks. Strategic risk management framework is based on regular strategic discussions and planning, performance reporting to the Board of Directors and Management Board and ongoing control of all specific directions of development. The strategic planning and implementation processes in the Bank are subject to the Procedure of Strategic Analysis, Business Planning and Monitoring.

Twice a year the Bank holds strategy sessions to discuss its strategy, risk appetite, goals and objectives for the upcoming years and submit them to the Board of Directors for review. The strategy sessions are followed by business planning for a 3-year horizon. Once the business plan is approved, it may be revisited only for essential amendments.

Business plan performance is reviewed and discussed with the directors of relevant business lines every quarter to be further presented to the Management Board and Board of Directors.

Environmental risk is an actual or potential threat of adverse effects on environment by effluents, emissions, wastes, resource depletion, etc., arising from the organization's activities, or the risk that a certain business activity will cause destruction to the surrounding natural environment. Environmental risk management seeks to define what environmental risks exist and then determine how to manage them in a way best suited to protect human health and the overall environment. Social issues may emerge in the workplace of a client's/investee's operations and may also impact surrounding communities. Ameriabank has adopted the best international practices of environmental and social risk management and is committed to ensuring that its clients (borrowers) properly comply with environmental and social obligations as well. The key elements of environmental and social risk management system are:

- Environmental and Social Risk Management Policy
- Environmental and Social Risk Management Instruction
- Tools required for assessment, introduction and implementation of this process based on best practices

The Bank has an environmental and social coordinator and an environmental and social risk management specialist responsible for implementation, maintenance and day-to-day operation of the system.

The Bank is also exposed to other types of risks, such as reputational risk, compliance risk, legal risk and AML risk.

Reputational risk is the likelihood of losing the organization's reputational capital resulting in decline of the organization's overall value and/or increase of regulatory or other costs. It includes adverse events related to ethics, safety, security, sustainability, quality and innovation. Reputational risks are managed on the level of the Management Board. In order to ensure sound decision-making, different departments, such as Customer Relations Management, PR, Security and other teams are involved in the processes where the Bank can be exposed to a reputational risk. Reputational risks are mitigated through a dedicated body – Disclosure Committee. The committee qualifies information as inside or not, approves the list of spokespeople, insider lists, IR announcements and advises on answers to public inquiries as well as market rumors. Compliance risk is the risk of compliance-related issues given that the Bank is governed by local regulations as well as creditor covenants. Compliance risk is managed by a dedicated unit, legal service and AML teams. The Bank meets regulator's requirements and applies international standards to treat possible discrepancies in internal regulatory acts. These risks are covered by internal policies and procedures, three-level decision-making and control structure including special units, specialized committees and the Management Board.

MACROECONOMIC RISK FACTORS

Main factors that affected the economic growth of Armenia and its banking sector during the reporting period are: still-weak gross capital formation and low domestic demand even with the recovery growth reported in 2018, limited foreign direct investments; dramatic changes in political field with change of power and global uncertainty (for more details on the macroeconomic analysis of Armenia please see External Environment, Strategic Report). Ameriabank worked under moderate risk pressure: all risks were within acceptable limits, including the Bank's credit risk indicators. The credit risk level (NPL) improved essentially by year-end and was way below the Armenian banking sector average. The main pressure on the quality of banks' loan portfolio in 2018 was still-weak domestic demand; low levels of recovery of remittances and foreign direct investments; risks connected with local currency depreciation that may have had their negative influence on domestic demand, wages and loan service ratio. Essential global risks in 2018 were connected with price volatility in commodity markets, "trade wars" between US and China, Federal Reserve policy on interest rates, geopolitical tension around Russia, political decisions in the USA, uncertainty on the global debt market. The economic situation in Armenia was characterized by 105.8% economic activity index for 2018/2017 with GDP growth of 5.2% for 2018. The risk of armed conflict in the region relatively stabilized, but the problem is still essential and may be raised and affect local financial market. CBA refinancing rate remained at 6% in 2018, with 0.25p.p. downward revision in early 2019, obligatory reserves regime was still strict. The strong trend of market interest rate decrease, which was present in 2017, changed during the second half of 2018; its influence on the Bank's financial indicators will depend on developments during 2019. Obligatory reservation regime kept AMD exchange rate stable, but further tendencies are uncertain. LIBOR rate continued its strong growth trend which was mostly connected with Federal Reserve Funding rate expectations and growth in 2018. However, the planned risk appetite of the Bank in 2018 did not exceed the limit. Actual losses were fully covered by the Bank's capital. CAR was acceptable throughout the year. Credit risk was the main source of risks in 2018. Actual losses from all sources of risk were within risk appetite limits.

MACRO ENVIRONMENT RISKS

Risks and Uncertainties

Uncertainties were connected with political developments with possible different outcomes which could theoretically affect almost all sectors of economy, foreign affairs, national security, etc. The situation changed during the second half of 2018 with strong positive signs of stability and economic growth.

Macroeconomic Indicators: GDP growth: 5.2%; Average annual inflation: 2.5%; FDI at relatively low levels since 2008; incoming international remittances increased by 1.7% Y-o-Y; Armenian banking sector; CAR: 17.7%; ROE: 8.5%; liquidity ratios exceeded regulatory limits almost two times; total equity grew by 10%.

RISK MANAGEMENT

KEY RISK MANAGEMENT FOCUS

Actions Performed

Based on trends and expectations in 2018 the Bank:

- Implemented a new concept for risk appetite, in line with strategy of the Bank and macroeconomic expectations
- Launched a new loan provisioning principle based on sophisticated mathematical model. The new model considers macroeconomic expectations and meets IFRS9.
- Eased credit policy for reliable borrowers, since the macroeconomic situation is expected to be optimistic
- Resolved a significant part of non-performing loans and improved risky loans monitoring
- Enhanced credit product line and diversity of assets, attracted new retail clients and credits from the market

CREDIT RISK

Risks and Uncertainties

During 2018, the Bank operated under an optimistic regime and medium credit risk pressure. Starting from the second half of 2016 the Bank's credit risk indicators have shown positive dynamics.

Key Risk Indicators

The Bank's NPL showed positive dynamics. By year-end this ratio was 3.3%. Corporate segment NPL was 3.3% and retail segment NPL was around 3.8%. The cost of credit risk was 1.7% of loan portfolio. Loan loss reserves covered 85%. Sector concentrations were at a low level, maximum concentration in the biggest wholesale trade sector did not exceed 18% of loan portfolio. The quality of portfolios in different sectors improved on during the year, except in agriculture where overall portfolio quality was affected by a single borrower.

Risk Mitigation Actions in 2018

- Actions taken to stimulate lending to borrowers with strong financials and, in general, some parameters eased to attract more low-risk clients.
- Risk-based pricing approach implemented in lending.
- New system developed for scoring-based retail lending via digital channels and appropriate risk appetite allocated for that purpose. NPL ratio is calculated by dividing overdue loans by total loan portfolio.

MARKET RISK

Risks and Uncertainties

The Bank was exposed to market risk associated with potential exchange rate hike and interest rate fluctuations on domestic and global markets. Armenian dram was quite stable, but depreciation risk is still present. However, shifts in political power brought about lack of liquidity in the local market as a result of transitive mix-up effect in government funding, which moved up the expected volatility and kept bid-ask spreads large at around 1% from base rate (AMD 500). Interest rate behavior for local and international markets was different in the first half of the year. Federal Reserve decisions brought LIBOR rate to its maximum since 2009. Local interest rates had a continued trend to decrease both for deposits and loans due to economic situation and competition during the first half of 2018. Howbeit, all those tendencies stopped later in the year and further expectations are toward flat LIBOR and rising domestic rates. It had direct impact on the Bank's IRR due to negative gap typical for Armenian banks. Hedging opportunities are limited given the cost of hedging and absence of local market instruments. However, open positions were within the limits of the Bank's risk appetite and were managed accordingly. Armenian securities performed well amid more or less flat AMD rate and CBA policy of key rates reduction.

Key Risk Indicators

Total actual losses driven by market risk in 2018 were below 1% of the Bank's equity. Open currency position during the year was mostly long due to general expectations of USD growth, NPL growth risks and high level of loan book dollarization. FX position revaluation for 2018 was negative, around 0.02% of equity. Interest rate gap, including floating rate gap (LIBOR-sensitive), became the most essential source of market risk for the Bank. But the stressed loss and actual result did not exceed allocated risk appetite. Market risk level of securities portfolio was acceptable and within risk appetite limits due to short duration (below 3.5 years) and size. Major part of portfolio consists of local Government bonds (89%).

Risk Mitigation Actions in 2018

- Risk appetite and possible losses were managed via internal parameters and limits, regular special stress-testing, monitoring of trends and scenario forecasts.
- Open currency positions were under special monitoring regime on daily basis.
- Interest rate risk was managed within the limits of open exposures and stressed losses. Rate movements and expectations were regularly (at least monthly) estimated and monitored. High hedging costs limited risk mitigation opportunities, but the risk was managed by means of swap contracts, strong efforts toward floating rate-based lending.

OPERATIONAL RISK

Risks and Uncertainties

There is a strong tendency of growth of cybercrimes in global banking world which can generate essential financial losses, loss of functionality and risks of continuity of business. As people get more involved in trading and banking via internet and mobile banking the amount of card frauds also increases globally. In modern times cyber security issues are common for all financial institutions around the World.

RISK MANAGEMENT

KEY RISK MANAGEMENT FOCUS

Key Risk Indicators

Operational risk is low due to well-regulated and controlled processes. Total amount of operational losses in 2018 did not exceed 0.01% of capital. 53% of losses occurred in execution delivery & process management in Retail Banking Department. The number of cases increased by 39% compared to 2017 but still the losses were insignificant when compared to risk appetite. The number of remote banking clients as well as cardholders of Ameriabank increases year by year. Operational losses were at an acceptable level and are not expected to increase. All systems of the Bank are supposed to operate in low risk conditions.

Risk Mitigation Actions in 2018

- Automated reporting was developed in internal exchange system in order to control any kind of deviations from approved authorities through the Bank's business processes.
- A system was implemented for operational risk mitigation and control in new digital products of the Bank.
- Insurance coverage in BBB, cash, property, ATM, TPL, bordero, etc. was increased significantly in terms of amount and risk types to include such risks as strikes, riots, civil commotion, terrorism, etc.

LIQUIDITY RISK

Risks and Uncertainties

Liquidity level in the Armenian banking sector decreased amid transitive mix-up effect in government funding, which stimulates activity in domestic money market given increased lending volumes mostly among retail clients.

Key Risk Indicators

All liquidity ratios met regulator's requirements even under the worst stress scenarios. During 2018 liquidity risk was insignificant; it was mitigated within the general risk parameters framework. Stress-testing on liquidity GAP showed very optimistic results even under most risky scenarios.

Risk Mitigation Actions in 2018

Allocation of highly-liquid assets was diversified through wide and high-grade counterparty network and more detailed investment portfolio structure. The Bank enhanced its counterparty network, established new connections with financial institutions overseas to have easy access to a wide range of financial instruments and liquidity providers.
To ensure deposit base stability and further growth, the Bank managed interest rates of deposits according to market trends. The Bank also targeted other funding sources, e.g. IFIs.

ENVIRONMENTAL & SOCIAL RISK

Risks and Uncertainties

Environmental and Social (E&S) risks management has become more critical for business success of companies. It is important for the Bank's stakeholders, its clients, investors, employees, community and environment in general. Ameriabank strives to collaborate with those clients who properly manage their environmental and social risks. The Bank also offers support to its clients in terms of organizing their environmental and social risks management. Ameriabank's E&S frameworks encourage clients to do business in a sustainable way. IFC, EBRD and ADB, Performance Standards and Performance Requirements, which are the cornerstones of the E&S framework of Ameriabank, have become a benchmark for environmental and social risk assessment in the lending process. The Bank uses technical reference documents with general and industry-specific examples of Good International Industry Practice to identify E&S risks.

Key Risk Indicators

E&S risks of the Bank's loan portfolio are on an acceptable level. Over 85% of environmental and social risks are concentrated in low and medium risk categories. There were no "High A" risk borrowers in total loan portfolio. The Bank's E&S and lending policies are designed to reduce negative impacts of financed projects by means of setting financing conditions, instructions and terms to be implemented, providing consultancy and involving E&S specialists.

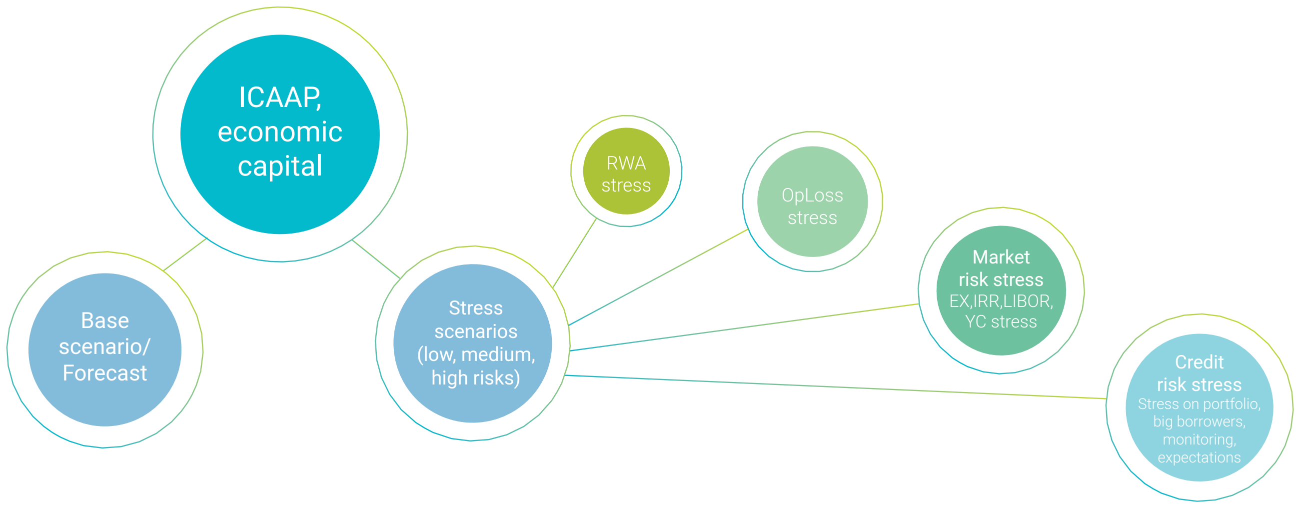
Risk Mitigation Actions in 2018

E&S risks were managed in accordance with the lending procedures of the Bank, by applying E&S risks management system effective at each particular time. This system is developed based on international best practice (EBRD, ADB and IFC Performance Standards/Performance Requirements). Each project financed by Ameriabank was subjected to E&S assessment, which included legal documentation review, risk identification and mitigation, monitoring and reporting. Findings of assessment and all identified inconsistencies were documented and included in contracts with borrowers as necessary E&S conditions of financing. In order to ensure that borrowers meet best practices and standards of environmental and social risk management in 2018 the Bank continually implemented an E&S management system for High category projects (including all Small Hydro Power Plants), describing the procedures that should be followed by borrowers in their activities. E&S risk monitoring for High-risk clients was conducted, including sector monitoring. During 2018 a number of E&S trainings were organized for the Bank staff involved in corporate lending.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The Bank uses an ICAAP model to ensure adequate capital to support undertaken risks and determine forward-looking target capital level adequate to risk exposure and environment. Capital adequacy ratio (CAR) is calculated as a ratio of total regulatory capital and risk-weighted assets (RWA). Minimum regulatory requirement is 12%. In order to assess the impact of losses from possible risks on capital, simultaneous stress-tests are conducted, e.g. simultaneous occurrence of all major risks is considered under four different scenarios. The Bank assesses the size of capital and its adequacy ratio over a certain time horizon, calculates the minimum required capital attributable to undertaken risks, as well as the capital benchmark and RWA. The types of risks in case of occurrence of which the Bank may incur losses are defined as follows: credit risk (portfolio quality risk, concentration risk), market risk (floating rate, yield curve, fixed rate gap, FX and equity instruments price risk); operational losses, RWA growth and other risks, if any. Four separate stress scenarios are used for possible future loss and capital assessment, starting from base scenario without stress on risks, up to the most risky scenario. If as a result of assessment the expected value of CAR, under the most probable (adequate to macro expectations) scenario, does not meet the minimum requirements specified by CBA regulations, the Bank undertakes actions to keep CAR on acceptable level. Under the most probable scenario during 2019 total capital ratio will be above the limit defined by risk appetite. This parameter is under strict control by high-level management bodies of the Bank, as the Bank has adopted a growth strategy for upcoming 3 years, which means continuous equity replenishment and adequate asset growth.

STRESS-TESTING: CAPITAL RATIO UNDER CUMULATIVE SCENARIO



in AMD mn	Dec-18	Jun-19	Dec-19
Capital (w/o risk adj.)	97,771	106,112	122,474
Tier1 (CBA)	76,998	86,434	102,796
Tier2 (CBA)	20,773	19,678	19,677
RWA	713,735	782,237	840,817
CAR (base scenario)	13.7%	13.6%	14.6%
CAR (low risk scenario, expected the most)		13.1%	13.8%

To ensure the efficiency of the Bank's risk management system in 2018 nearly all principles, processes and methodologies related to risk assessment and mitigation were reviewed. A number of new instruments and methods was implemented.

With regard to credit risk management in 2018 the Bank implemented:

- New approaches to stress scenarios based on geopolitical aspects affecting unhedged and exposed borrowers
- New SME risk-based pricing and lending process based on machine learning model
- Special risk assessment methodologies for new scoring-based lending product and consumer finance

The Bank's management also was up to speed with loan portfolio quality, data concerning various industries, loan products, key risk indicators and other risk factors and their dynamics via monthly reports on credit risk making it possible to give specific tasks aimed at risk assessment and mitigation. Loans involving high risks were under ongoing control via out-of-turn inspections which helped to cut their volume significantly by the end of the year. Application of risk identification, assessment and management mechanisms enabled the Bank to substantially minimize the credit risk in 2018 and make it controllable to the most possible extent.

With regard to financial risk management in 2018 the Bank:

- Developed a new concept of the Bank's risk appetite setup. The new concept enlarges controlling parameters, takes into consideration future macroeconomic developments and is embedded in the Bank's strategic and operating planning process.
- Implemented a new system of trading limits, covering all types of transactions and authorities.
- Implemented a process of risk models validation and quality control. Started capacity building in sophisticated cutting-edge modeling for risks.
- Improved current stress-testing system and scenario design to be in line with economic realities.
- Created country risk assessment measures designed to limit exposures, measure possible risks and allocate adequate appetite.
- Enhanced the investment limits system to obtain more flexibility in liquidity management.
- Initiated the formation of a special risk committee responsible for risk function monitoring and control on the Bank's Board level.

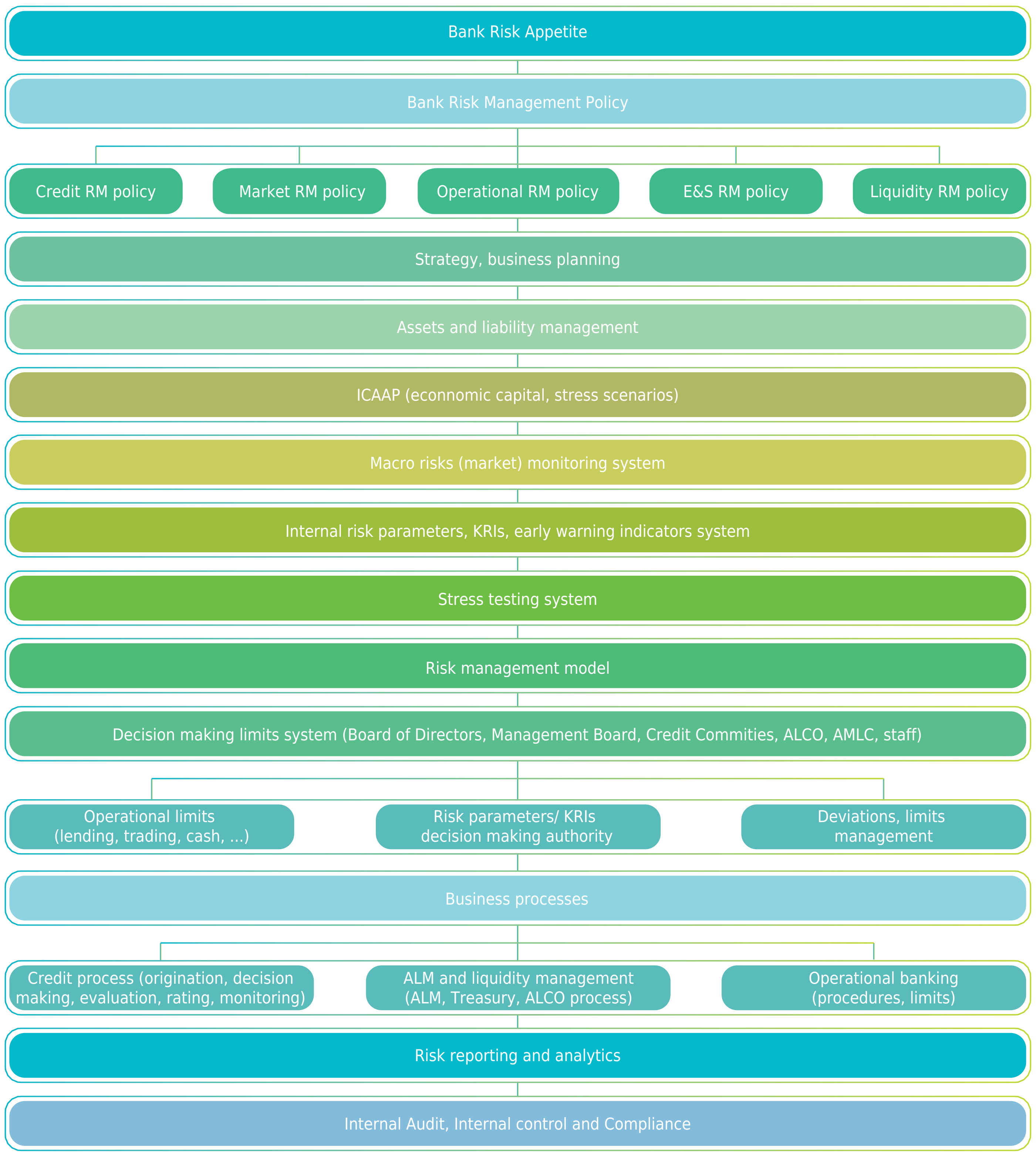
With regard to operational risk management in 2018 the Bank:

- Assessed and reassessed a number of internal processes and systems (including new generation products for digital banking) in order to ensure proper management of operational risks.
- Developed risk prevention and/or mitigation measures and implemented them with respect to some designated high risk activities.
- Improved and centralized new functions in the automated operational risks/incidents and losses database.

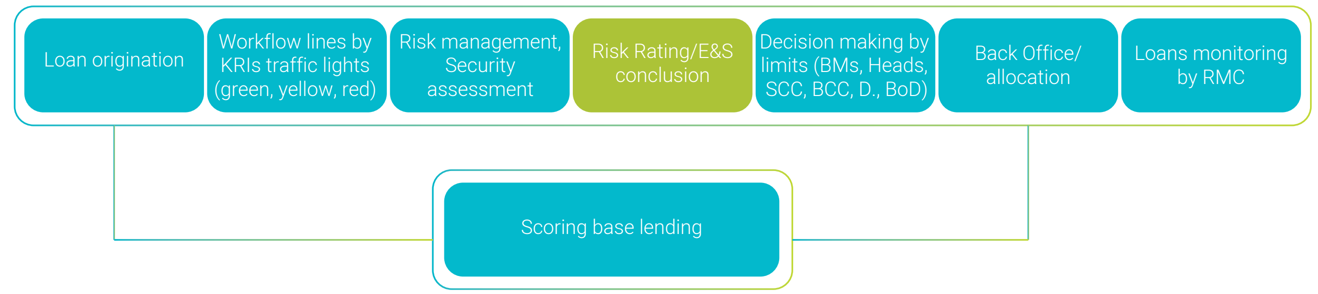
RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

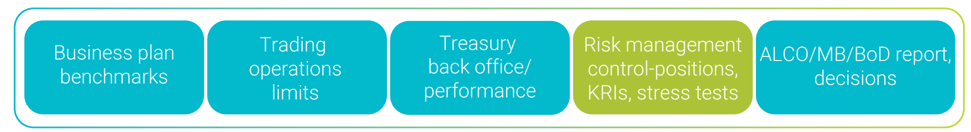
The general logic of the Bank's risk management framework is presented below. It is a well-developed structure with several lines of defense against possible risks coming from external and internal sources.



Lending risk management workflow:



Trading risk management workflow:



Operational risk management workflow:

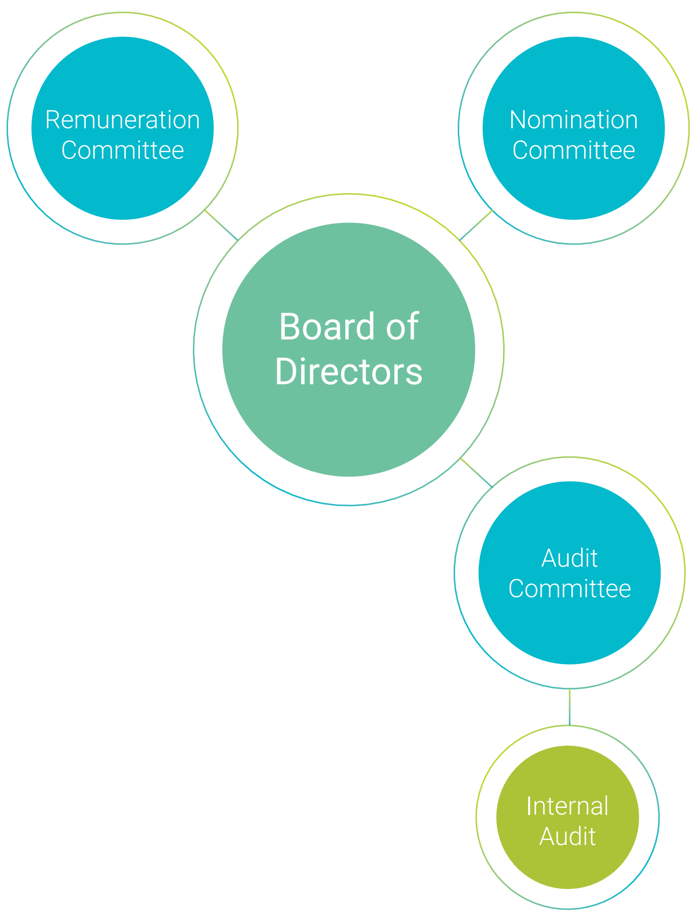
RISK MANAGEMENT

RISK ORGANIZATION AND GOVERNANCE

The Bank's risk management is incorporated in all structures of the Bank. It reflects governance and risk-taking authority distribution based on the risk appetite of the Bank.

The Board of Directors (BoD) approves the Bank's strategy, as well as risk management, credit and other policies and internal regulatory acts necessary for its implementation; defines the Bank's risk appetite (the acceptable risk criteria and limits), including the Instruction on Risk Management Parameters and Internal Standards; controls the effectiveness of risk management system, the level of risks undertaken by the Bank, their compliance with the risk appetite; approves those deals and transactions which are beyond the Bank's Management Board limits and criteria.

The executive management, namely the Chairman of the Management Board - General Director, the Management Board and its members undertake risks within the scope of BoD-approved policies and perform their day-to-day management; coordinate operations of business lines; carry out risk management under the risk management parameters established by the BoD. The Chairman of the Management Board - General Director and the Management Board report to the Board of Directors. The Management Board may delegate the authorities specified above to specialized collegial bodies – committees (Assets and Liabilities Management Committee, Credit Committee, etc.). The institute of specialized committees with delegation of authorities from the Management Board was established in the Bank in order to manage risks arising from all main business activities of the Bank.

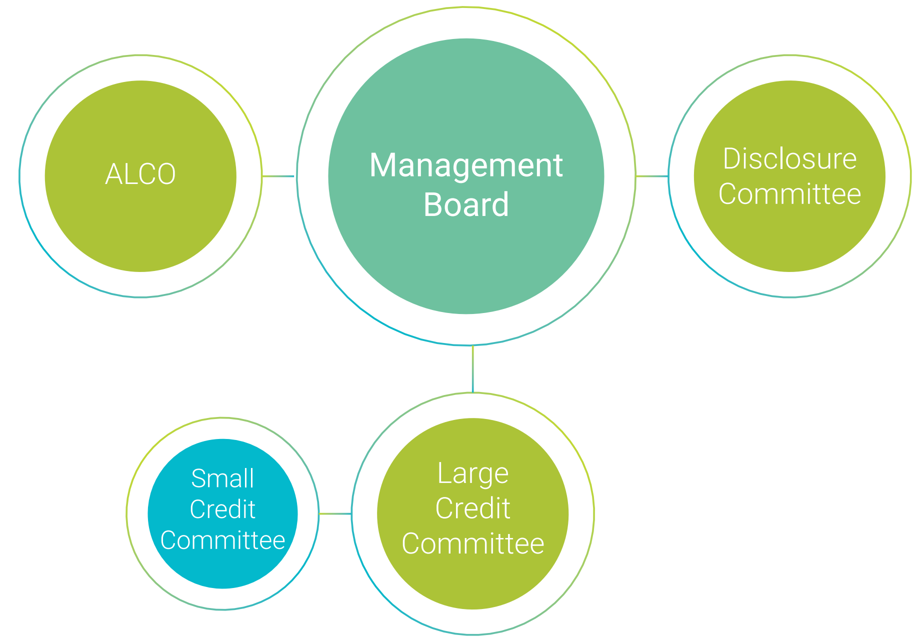


LARGE CREDIT COMMITTEE (LCC)

The main purpose of the Large Credit Committee is to implement the lending policy of the Bank and form a loan portfolio with high profitability under acceptable level of credit risk. LCC makes decisions based on conclusions of various business lines, risk management and security services within the limit of 10% of total book capital. Loans with non-standard terms are also reviewed and approved by LCC.

SMALL CREDIT COMMITTEE (SCC)

The key purpose of the Small Credit Committee is the same as LCC's, with smaller limit and loan products. SCC reviews and makes decisions on retail and SME loans. Loans with negative opinion from at least one of responsible departments cannot be reviewed or approved by SCC.



RISK MANAGEMENT

RISK ORGANIZATION AND GOVERNANCE

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE (ALCO)

The Assets and Liabilities Management Committee is a permanent corporate collegial body of the Bank entitled to make decisions within the framework of the assets and liabilities management policy. The goal of the ALCO is to ensure sufficient preconditions for efficient and harmonized management of the Bank's assets and liabilities to achieve maximum profitability within the acceptable level of liquidity, interest rate and currency risks. Investment policy, interest rates, currency and liquidity management, capital adequacy and risk parameters management issues are reviewed and approved by ALCO.
Lending decision making limits are distributed among various authorities including both collegial management bodies of the Bank and individual decision-makers. Limits are set within the general concept of risk appetite distribution among decision-makers and are reviewed on a regular basis.
Deviations from approved lending parameters are subject to the same framework of limits depending on type and sum; decisions are made based on voting schemes (simple majority, overwhelming majority). Furthermore, depending on how stable the macro environment is, the Management Board adopts 1 out of 4 possible regimes for approval of loans with deviations, which tightens the system of limits in case of risky macroeconomic developments.

The Risk Management Center has a wide range of responsibilities, which include but are not limited to the following:

- Develops risk management policy and structure
- Implements risk management (internal control) system at the level of business processes
- Provides risk management recommendations concerning newly implemented instruments
- Provides conclusions on the Bank's transactions within established limits
- Develops and elaborates risk management reports and presents them to the Bank's management
- Increases awareness and conducts trainings on risk management in the Bank

Internal Audit assesses the effectiveness of the Bank's risk management system and the Bank departments' adherence to established criteria; provides recommendations for enhancing the system's effectiveness; reports to the Bank's management and Board of Directors on identified risks.

In order to have an effective risk management framework, a management information system (MIS) is established in the Bank, which provides adequate vertical and horizontal information flows for decision-making purposes.

The MIS is designed to provide the Bank's management team with leading, lagging and coincident indicators concerning loan and other portfolios. The Board of Directors and Management Board have access to all reports concerning emerging risks, their implications as well as collapse of control mechanisms. In particular, the following data is presented to the Bank's vertical and horizontal line managers in terms of specific instruments via different reporting lines:

- Structure of portfolios/investments
- Yield and maturity structure of portfolios
- Structure of overdue assets and liabilities
- Structure of pledged assets and collateral
- Information concerning non-performing loans and concentrations
- Collectability of defaulted loans
- Other information on effectiveness

Dear Shareholders,

I am pleased to present our Corporate Governance report for 2018. This year was full of positive changes not only in macro environment and in terms of our financial results which I addressed in my Chairman's statement, but also for our corporate governance structure and practices. We successfully continued our efforts aimed at establishing best practice corporate governance system in compliance with international practice of public companies and the UK Corporate Governance Code in particular. We strongly believe that good corporate governance is vitally important at any stage of the Bank's development, as it ensures necessary checks and balances, better and more accountable decision-making and provides necessary strategic insight to the Management.

Having successfully completed major structural and internal regulatory changes at Board level, throughout 2018 our main focus was on improvements in Board-related practices. These improvements were first of all aimed at ensuring that there is an effective reporting line between the Management and the Board and that Board Members are fully engaged in all strategic-level discussions. We have been working further towards creating an environment which encourages an effective relationship between the Board and Management to enable necessary level of debate, challenge and support in the decision-making process. Another area of focus was the role of Board-level committees, as we were encouraging further the committees' involvement in decision-making process and overall professional support to the Board.

Considering the importance of the right balance of skills, knowledge and diversity of Board Members for the effectiveness of the Board, we implemented significant changes in the Board structure, engaging new non-executive Board Members in 2018.

Lindsay M. Forbes joined the Board in August replacing Alexey Germanovich, and Philip Lynch joined in October replacing Oleg Tsarkov as a non-executive director. Both Lindsay and Philip are highly respected and knowledgeable professionals with profound knowledge in finance. Lindsay has valuable experience in commercial banking and financial institutions, while Philip has significant experience in investment banking and private equity. With their deep wealth of experience, Lindsay and Philip are immensely valuable additions to the Board bringing new strategic insight and enhancing the Board's effectiveness. I would also like to thank Alexey and Oleg for their contribution to the Board and the Bank for the last two years. The Board and I greatly appreciate Alexey's and Oleg's proactive engagement, valuable support and perspective. I wish them all the best for the future.

Following changes in the Board structure, the Corporate Governance and Nominations Committee initiated relevant changes in the structure of Board-level committees: Lindsay joined the Audit Committee, while Philip became a member of the Remuneration Committee

We can proudly state that currently our Board is one of the most experienced and professional Boards in the market, with non-executive directors from different markets with profound knowledge in finance and banking.

2019 will be another year full of strategic challenges and ambitious goals. We will keep our focus on the effectiveness of the Board. Understanding the importance of independent judgement by the Board Members for making balanced and unbiased decisions, the Corporate Governance and Nominations Committee and the Board will continue reviewing and assessing the independence of all Board Members. One of the mid-term goals of our corporate governance strategy is to ensure the necessary minimum number of independent Members on the Board in compliance with best international standards for public companies.

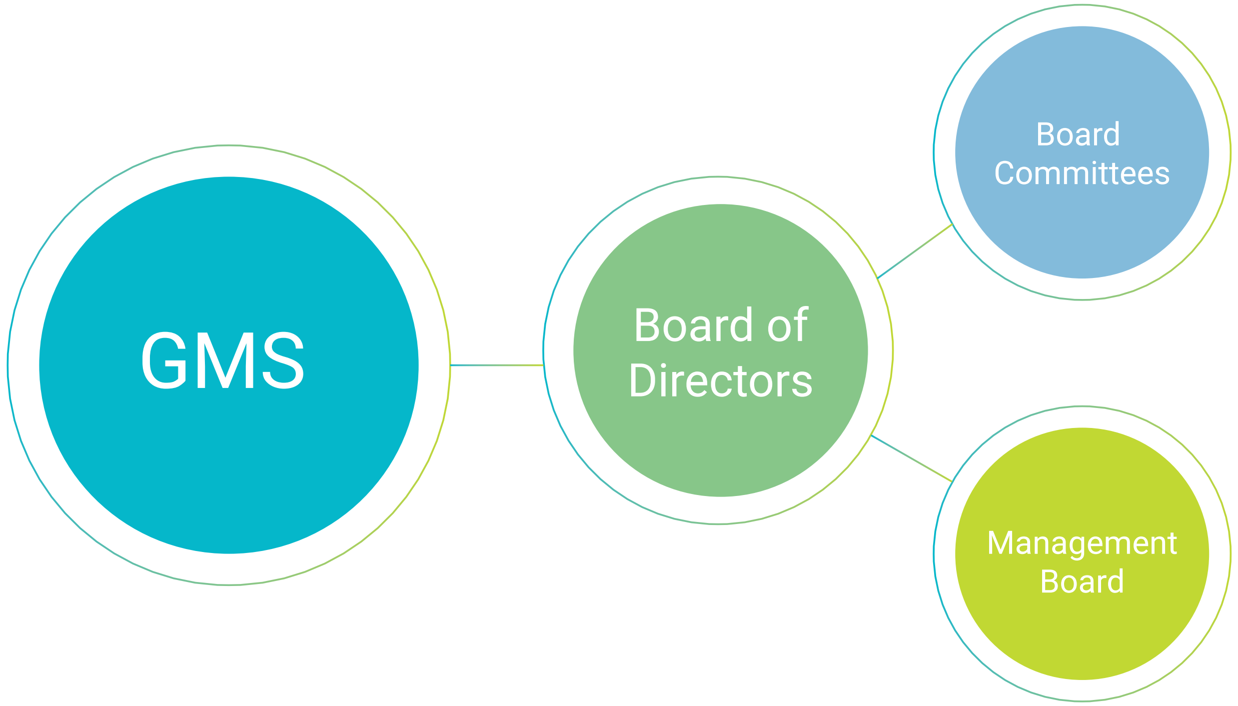
We will also continue our efforts towards the enhancement of Board-level committees' effectiveness, establishing regular practice of face-to-face meetings and delegating more and more topics to the committees for comprehensive review and discussions, which will greatly support the Board in their decision-making process and save valuable time for strategic-level issues and discussions.
I look forward to even more effective and consistent governance in 2019 with continued close work with the management to further improve business performance and create sustainable long-term value for our shareholders.

Andrew Mkrtchyan
Chairman of the Board of Directors

Ameriabank is developing its corporate governance system in compliance with high international standards to ensure the utmost efficiency of the Bank operations and increase the confidence of our shareholders, partners and clients towards the Bank.

The Bank's corporate governance structure is based on best international practice for public companies and is aimed at ensuring the necessary checks and balances for effectively managing the relationship between the executive management, Board and shareholders. The Bank's corporate governance includes the following bodies: the General Meeting of Shareholders (GMS), which is the supreme governing body regulating and managing the main business directions and has the authority to approve all key decisions regarding the strategic development of the Bank, the Board of Directors, the Board Committees and the Management Board.

Committees and the Management Board



GOVERNANCE REPORT
BOARD OF DIRECTORS

The Board is responsible for long-term success of the Bank by overseeing the strategic direction of the Bank, defining core values and supervising the Management. Its purpose is to ensure maximum investment value for the Bank's shareholders and protect other stakeholders' interests.

A key objective of the Board is to ensure the implementation of effective internal control system and proper control of risks associated with the Bank's activities, by determining the acceptable risk appetite. There is an ongoing practice in place for identifying, evaluating and managing significant risks, including risks related to social, environmental and ethical matters. The Board develops policies and procedures, while the role of Management is to implement the Board's risk and control policies and provide assurance on compliance with them. The overall responsibility for internal control systems and their effectiveness also rests with the Board.

The Board has primary responsibility for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. Key to ensuring the Board's effectiveness is enabling Directors' full access to information and management across the Bank. All Directors make every effort to attend each meeting, whether in person or through remote access. The Bank has a dedicated online platform for Board interaction – a Board Members' portal. It's a unique and highly secure environment, enabling Board Members and corporate secretaries to collaborate, participate in daily Board-related activities and gather all Board-related data, including resolutions, meeting minutes, presentations, approvals and reports, in one place. Users can access the portal from various devices, which enables Board Members to participate in discussions and decision-making from any part of the world with remote access. In addition, the Chairman and Members of the Board frequently conduct site visits and interact with staff at all levels. This gives them an opportunity to witness the culture and values of the organization in action, and also provides context for the formal information they receive at Board meetings. The Board consistently probes, questions and explores the logic behind management actions, both at formal Board meetings and informal interactions. The Chairman plays a particularly important role by ensuring that all Board Members have the opportunity to contribute fully in all Board discussions.

The Board at Ameriabank is governed by the Board of Directors Regulation that outlines the key goals and objectives, scope of authorities, procedure of preparation, summoning and holding of meetings of the Board.

The members of the Board of Directors are appointed by the General Meeting of Shareholders. Those shareholders who own 10 and more percent of the placed shares of the Bank may be appointed or represented on the Board without election, subject to the procedure and terms defined by the Armenian law and Charter of the Bank.

The term in office of Board Members is determined by the General Meeting of Shareholders but is limited to a period from 5 to 10 years. The Chairman and Members of the Board can be reelected.

The size and composition of the Board, qualifications of its Members and balance of their skills have a significant impact on its effectiveness. The Board regularly reviews these matters, both in terms of what is needed now and what might be needed to be successful in future. Recognizing the benefits of diversity in the Board, current Members of the Board have a wide range of skills and experience required to govern the Bank. Geographic diversity together with professional expertise in banking, asset management, advisory, finance and international business form the core components of our Board succession planning.

As of 31 December 2018 the Board is comprised of a Chairman and six non-executive directors.

Structure of the Board:

Name	Position	Initial Year of Appointment	Current Terms' Year of Appointment
Andrew Mkrtchyan	Chairman of the Board	**2007**	**2013**
Ruben Vardanyan	Non - Executive Board Member	**2007**	**2013**
Noubar Afeyan	Non - Executive Board Member	**2010**	**2010**
Robert von Rekowsky	Independent Board Member	**2012**	**2012**
Pierre Gurdjian	Non - Executive Board Member	**2016**	**2016**
Lindsay M. Forbes	Non - Executive Board Member	**2018**	**2018**
Philip Lynch	Non - Executive Board Member	**2018**	**2018**

Alexey Germanovich served on the Board till August 2018 and Oleg Tsarkov served till October 2018.

The Board held 4 in-person[1] and 22 distant meetings in 2018. Some of the topics during in-person Board meetings were: strategy and business plan of the Bank, performance and results presented by the CEO and CFO, strategic initiatives, political and macroeconomic situation and its possible impact on delivering the Bank's strategy. The Board has received and reviewed regular reports from the Risks Department, Internal Audit and Compliance, Strategy Development, Human Resources and Investor Relations.

[1]Includes non-formal meetings.

GOVERNANCE REPORT

BOARD COMMITTEES

The Board relies significantly on its committees ("the Committees") and delegates a broad range of responsibilities to them, ensuring comprehensive and thorough review and discussions of subject matters at the Committees level for more informed decision-making at the Board level.

Delegation of some functions to the Committees does not affect or reduce the authority or responsibility of the Board of Directors. The Committees perform their responsibilities independently. However, final resolution of issues is achieved by submitting the Committee's decisions and recommendations to the Board of Directors for approval. As per the Bank's internal regulations, any matter that needs thorough elaboration should be first discussed at the Committees' level before being referred to the Board.

Currently the Bank has three Board-level committees: Audit Committee, Remuneration Committee, Corporate Governance and Nominations Committee.

AUDIT COMMITTEE

The main purpose of the Committee is to ensure that the interests of shareholders are properly protected by overseeing and increasing the efficiency of financial reporting, external audit, risk management and internal compliance functions at the Bank.

In 2018 the Audit Committee held 5 meetings during which the Committee discussed and made recommendations regarding quarterly IFRS reporting, Internal Audit quarterly reports and overall effectiveness of internal control systems.

REMUNERATION COMMITTEE

The Committee is to assist the Board in developing and maintaining an effective remuneration system in the Bank, assessing its quality and monitoring applicable remuneration practices to attract and retain the best-qualified directors and eliminate any possibility of abuse.

In 2018 the Remuneration Committee held 3 meetings. As a common practice the Committee held meetings after semi-annual and annual evaluations and made recommendations to the Board on bonus pools, executive remuneration, as well as reviewed the overall performance evaluation system.

CORPORATE GOVERNANCE AND NOMINATIONS COMMITTEE

The Committee's role is to create a solid pool of highly experienced and competent candidates with relevant skills and integrity to be engaged on the Board of Directors, its committees and top management, to ensure succession planning and workforce optimization, as well as implement corporate governance principles and structure in line with legislative requirements and best practice.

In 2018 the Committee held 1 meeting. The Committee reviewed and assessed the structure of the Board and the Committees and made recommendations to the Board.

Structure of the Committees:

Committees	Audit Committee	Remuneration Committee	Corporate Governance and Nominations Committee
Andrew Mkrtchyan			Chairman
Ruben Vardanyan		Chairman	
Noubar Afeyan		Member	
Robert von Rekowsky	Member		Member
Pierre Gurdjian	Chairman		Member
Lindsay M. Forbes	Member		
Philip Lynch		Member	

Andrew Mkrtchyan
Chairman of the Board of Directors

Mr. Mkrtchyan was appointed Chairman in November, 2013.
Mr. Mkrtchyan served as Board Member from 2007 to 2013 before being elected Chairman.

Skills and Experience:

As a Founder and Executive Chairman, he has been successfully managing the Group for the last 20 years, standing at the roots of investment banking and management advisory in Armenia. He has extensive experience in strategic management which has been the key to the successful growth and development of the Group. Andrew Mkrtchyan is the first businessman from Armenia to be a Founding Member of World Economic Forum New Champions Chapter. He is a Board Member to a number of private and public organizations.

Education:

Mr. Mkrtchyan graduated from Yerevan State University, Department of Economics. He received a scholarship from American Economic Association (AEA) for his scholar studies at Economics Institute, Colorado State University, as well as participated in a number of executive programs in different universities, including Kingston Business School, Harvard Business School, INSEAD and others.

Ruben Vardanyan
Non-Executive Member of the Board of Directors

Mr. Vardanyan was appointed Board Member in November, 2013. Mr. Vardanyan served as the Chairman of the Board starting from the incorporation of the Bank back in 2007 till November 2013.

Skills and Experience:

Mr. Vardanyan is an impact investor and social entrepreneur, a prominent investment banker with more than 20 years of experience and a key figure in Russia's capital markets establishment. He is currently a founding partner and president of VARDANYAN, BROITMAN AND PARTNERS and a board member at numerous entities in Russia and abroad. Mr. Vardanyan is also a member of the Economic Advisory Board at the International Finance Corporation. Prior to the merger with Sberbank in January 2012, he served as CEO, Chairman of the Board at Troika Dialog, one of the oldest and largest investment banks in Russia and the CIS. Mr. Vardanyan is the Chairman of the Board at SOLLERS, a leading Russian automotive company, and Board member at KAMAZ.

He is a member of the Investment Committee of Avica Property Investors International, and also a member of the Investment Council under the Chairman of the State Duma of the Russian Federation and a member of the Strategic Council for Investments in New Industries under the Ministry of Industry and Trade of Russia.

Mr. Vardanyan is a Founding Partner and Vice-Chairman of the International Advisory Board of Moscow School of Management SKOLKOVO, as well as Chairman of the SKOLKOVO Institute for Emerging Market Studies. He is also a co-founder of Scholae Mundi Foundation CIO and UWC Dilijan College in Armenia, a member of the International Advisory Councils at Fundação Dom Cabral business school in Brazil and GuangHua School of Management in China. He is a member of the Boards of Trustees of the Russian Presidential Academy of National Economy and Public Administration and the Faculty of Economics at Lomonosov Moscow State University.

Mr. Vardanyan is a co-founder and Chairman of the Board of Charitable Foundation Initiatives for Development of Armenia (IDeA), a co-founder of 100 LIVES project and the Aurora Prize for Awakening Humanity and a member of the Central Board of Directors of the Armenian General Benevolent Union (AGBU).

Education:

Mr. Vardanyan received his Master of Science Degree in Economics from Moscow State University. He also completed various professional courses and special programs at INSEAD, Harvard Business School, Yale University and Stanford University.

Noubar Afeyan
Non-Executive Member of the Board of Directors

Mr. Afeyan was appointed Board Member in July 2010.

Skills and Experience:

Dr. Afeyan is a founder, senior managing partner and CEO of Flagship Pioneering, a private equity and venture capital firm focused on healthcare and biotechnology. He also leads the firm's VentureLabs unit that invents and launches transformative startups.

Dr. Afeyan has been a senior lecturer at MIT's Sloan School of Management where he has taught courses on technology-entrepreneurship, innovation, and leadership since 2000. He has authored numerous scientific publications and patents.

Dr. Afeyan has co-founded and helped build over 35 successful life science and technology startups during the past three decades. He was founder and CEO of PerSeptive Biosystems, a leader in the bio-instrumentation field. After PerSeptive's acquisition by Applera Corporation, he was Senior Vice President and Chief Business Officer of Applera, where he initiated and oversaw the creation of Celera Genomics. Currently Dr. Afeyan serves on a number of public and private company boards including Codiak Biosciences, Evelo BioSciences, Kaleido BioSciences, Moderna Therapeutics, Axcella Health and Seres Therapeutics. He received a Technology Pioneer 2012 award from the World Economic Forum (WEF).

Dr. Afeyan also serves on the Boards of the Armenian General Benevolent Union, IDeA Foundation and UWC Dilijan International School. He is engaged in a number of philanthropic initiatives and is a co-founder of 100 LIVES project and the Aurora Prize for Awakening Humanity.

Education:

Dr. Afeyan graduated from McGill University with a BS in Chemical Engineering in 1983 and earned his Ph.D. in Biochemical Engineering from the Massachusetts Institute of Technology in 1987.

MEMBERS OF THE BOARD OF DIRECTORS

Robert von Rekowsky
Independent Member of the Board of Directors

Robert von Rekowsky was appointed Board Member in October 2012.

Skills and Experience:

Mr. von Rekowsky has around 30 years of experience in global asset management. He was a vice-president at Emerging Markets Strategy and portfolio manager for Fidelity Investments. He's been managing several institutional and retail emerging market equity funds for US. and Canadian investors.

Mr. von Rekowsky joined Fidelity's fixed-income division in 1989. In 1995, he moved along with the emerging markets debt group into the company's high-income division as a sovereign debt analyst. He continued in that role while working from Fidelity's London office (1996 - mid-1998), when he moved into European equity research. From 2002 to 2004, Mr. von Rekowsky was an associate fund manager for the emerging markets funds, responsible for the EMEA region. In 2004, he relocated to Boston to assume responsibility for Fidelity's global emerging market equity funds.

Education:

He received a BA in Political Science and Government from the University of New York at Albany (SUNY) and an MA in Political Science from Northeastern University. He received an MSc in Finance from Brandeis University.

Pierre Gurdjian
Non-Executive Member of the Board of Directors

Pierre Gurdjian was appointed Board Member in December 2016.

Skills and Experience:

Mr. Gurdjian is the President of the Board of Directors of the Free University of Brussels, one of Belgium's largest universities. He is also a Philanthropy Partner at the RVVZ Foundation, focusing on the Foundation's global philanthropic initiatives.

Before that he was a Senior Partner at McKinsey & Company where he was active for 27 years. He was the Managing Partner of the Belgian-Luxembourgian office between 2005 and 2012, after which he took the international responsibility of the Human Capital Service Line in EMEA. In this capacity, he served his clients in building personal and institutional leadership capabilities. He has had extensive experience serving clients in industrial and consumer industries on matters of governance, strategy, effectiveness, organization, operations and large-scale transformations across geographies, including post-merger integrations.

He was an active senior faculty member of several high profile client leadership forums (Bower Forum, Executive Transition workshop, Change Leaders workshop).

Pierre Gurdjian is a member of the World Presidents Organization (WPO), President of the Board of Directors of YouthStart Belgium (formerly known as NFTE Belgium), and Past President of the Harvard Club of Belgium. He has a passion for philosophy around which he has developed an innovative leadership development program ("Leadership and Wisdom"). He teaches a graduate course on "The CEO Perspective" at the Solvay Business School of the Free University of Brussels (ULB). He is also a member of the Board of Directors of UCB, a leading Belgian biopharmaceutical company.

He is a member of the Board of Trustees of Charitable Foundation Initiatives for Development of Armenia (IDeA) and a member of the Board of Governors and Trustees of UWC Dilijan College in Armenia.

Education:

He has a degree in Commercial Engineering from the Free University of Brussels (VUB) and an MBA from Harvard Business School.

Lindsay M. Forbes
Non-Executive Member of the Board of Directors

Lindsay M. Forbes was appointed Board Member in August 2018.

Skills and Experience:

Mr. Forbes has over 35 years of experience in commercial and investment banking, including more than 20 years with the European Bank for Reconstruction and Development (EBRD).

Joining EBRD in 1994, he worked as a Senior Banker/Country Director undertaking debt and equity transactions in Central and Eastern European countries. In 2000 he became director for Corporate Equity, focusing entirely on equity transactions in multiple countries, including Armenia. From 2012 till 2016 he was director for Industry, Commerce and Agribusiness in Russia, responsible for new business origination, portfolio management, client relationships and team management of EBRD's industrial activities in Russia. He has represented EBRD on the Boards and Audit Committees of numerous listed and unlisted corporates and banks in a variety of countries, including Croatia, Poland, Romania, Kazakhstan, Russia and Egypt.

Before joining EBRD, Mr. Forbes spent 13 years with the British Linen Bank, the Investment Bank subsidiary of the Bank of Scotland, specializing in commercial lending and private equity in various locations, including the USA.

He qualified as a Solicitor with Norton Rose in 1978 and worked in Shipping Finance until 1980.

Education:

He has Degree in Jurisprudence from Oxford University (1975) and an MBA from INSEAD (1981).

Philip Lynch
Non-Executive Member of the Board of Directors

Philip Lynch was appointed Board Member in October 2018.

Skills and Experience:

Mr. Lynch has more than 30 years of experience in finance, including more than 20 years with Lehman Brothers. Starting his career as an analyst, he later moved to senior operating positions at Lehman Brothers – Co-head of Asia Pacific Investment Banking (1999-2002), Head of European Financing (2003-2006) and Co-head of European Equities (2007-2008).

After the sale of Lehman Brothers' European, Middle East and Asian businesses to Nomura, Mr. Lynch became the CEO of Middle East and Africa (2008-2009), later becoming the CEO Asia Pacific and Middle East (2010-2012) at Nomura.

Since 2013 Mr. Lynch has been the founding Partner of Stem Capital Partners – an independent direct investment (PE) business focusing on financial services in Southeast Asia.

Education:

Mr. Lynch earned his Bachelor Degree in History at Yale University (USA) in 1987.

GOVERNANCE REPORT
MANAGEMENT BOARD

The day-to-day operations of the Bank are run by the executive body represented by the Management Board and the Chairman of the Management Board-General Director. The Management Board consists of the General Director and 7 members (including Deputy General Director). The General Director is appointed by the Board of Directors, while the other members of the Management Board are appointed by the Board of Directors upon nomination by the General Director.
The scope of the Management Board and General Director's authorities cover all issues related to daily activities of the Bank, other than those reserved to the sole competence of other bodies defined in the Charter.

Artak Hanesyan
Chairman of the Management Board-General Director

Artak Hanesyan was appointed General Director of Armimpexbank (currently Ameriabank) in October 2007. In April 2008 he was appointed Chairman of the Management Board – General Director of Ameriabank.

Skills and Experience:

Mr. Hanesyan has extensive experience as a C-suite executive in the banking sector of Armenia. With more than 20 years of experience in banking, Mr. Hanesyan held several key positions at Converse Bank, serving as CEO (2006-2007), Vice-chairman of the Management Board and Head of the Principal Financial Department (1998-2006). Early in his career he also worked at the Central Bank of Armenia as Head of the First Division of Supervision Department, Senior Specialist, Specialist at Supervision, Regulation and Licensing Department (1995-1998) and an engineer at Arminvestbank (1993-1994).

Education:

Mr. Hanesyan received a Master's Degree in Economics from Yerevan State University, Department of International Economic Relations.

Gevorg Tarumyan
Member of the Management Board, Deputy General Director, CFO

Gevorg Tarumyan was appointed member of the Management Board of Ameriabank in August 2012.

Skills and Experience:

Mr. Tarumyan has more than 20 years of experience serving as CFO both in local banks and global banks represented in the banking system of Armenia, thus bringing the breadth and depth of his truly dedicated expertise to the Management Board of Ameriabank. He started his career in the banking sector in 1994 in the Supervision Service of the CBA, where he occupied various executive positions and coordinated the activities of the Regional Group of Basel Committee on Banking Supervision of Central Asian and South Caucasus banks in Armenia. In 1999, Mr. Tarumyan moved to Armimpexbank as CFO, where he was appointed Deputy General Director in 2006. He worked as Deputy Chairman of the Management Board-General Director and Financial Department Director at VTB Bank Armenia (2007-2008). In April 2008, he became CFO at HSBC Bank Armenia, where he was appointed Deputy CEO on March 6, 2012. Mr. Tarumyan joined Ameriabank in June 2012, as Deputy General Director and CFO.

Along with his work in the banking sector, Mr. Tarumyan has lectured to the banking sector specialists on financial analysis and risk management. He has authored and coauthored a number of tutorials on banking, financial analysis and risk management.

Education:

Mr. Tarumyan graduated from Yerevan State Economic Institute and attended an executive program at London School of Economics.

Gagik Sahakyan
Member of the Management Board, Corporate Banking Director

Gagik Sahakyan was appointed member of the Management Board of Ameriabank in February 2012.

Skills and Experience:

Mr. Sahakyan has vast experience working as an advisor and banking executive with key industry players of Armenian economy. He has stood at the roots of Ameria's development. Mr. Sahakyan joined Ameria as Senior Advisor and later as Partner and Head of Management Advisory Services (1999-2012). As part of the team that led Armimpexbank acquisition deal from its inception to closing, Mr. Sahakyan has taken up key positions at Ameriabank. His professional career with Ameriabank includes positions of Advisor (2008-2010), Corporate Banking Director (2010-2012) and Member of the Management Board-Corporate Banking Director (from February 2012, up to present).

Education:

Mr. Sahakyan graduated from Yerevan State University, with a major in Mathematics. He received MBA degree from the American University of Armenia, College of Business and Management (1995-1997). In 2004 he attended executive program at Kennedy School of Government, Harvard University.

Arman Barseghyan
Member of the Management Board, Retail Banking Director

Arman Barseghyan was appointed member of the Management Board of Ameriabank in September 2012.

Skills and Experience:

Mr. Barseghyan has proven career track of more than 20 years in retail banking. He started his career in banking in 1997 as a specialist at Financial Control Department in HSBC Bank Armenia CJSC (formerly Midland Armenia Bank J.S.C.). His career path at HSBC Bank Armenia assumed several key positions including Operations Manager at the Financial Control Department (2001-2004), Branch Manager (2004-2008) and Retail Banking Director (2008-2012).

In June 2012, Mr. Barseghyan joined Ameriabank as Retail Banking Director.

Education:

Mr. Barseghyan graduated from Yerevan Institute of National Economy with major in International Economics. Later he was awarded with academic degree of Candidate of Economics at the Institute of Economics under the National Academy of Sciences of the Republic of Armenia.

GOVERNANCE REPORT
MANAGEMENT BOARD

Arthur Babayan
Member of the Management Board, Trading Director

Arthur Babayan was appointed member of the Management Board of Ameriabank on December 24, 2013.

Skills and Experience:

Mr. Babayan started his professional career in banking in 1999 at Armimpexbank (currently Ameriabank) and has devoted himself to the development of the Bank since then. He worked as a dealer at the Division of FX&Stock Transactions (1999-2001), Chief Dealer (2001-2002), Head of Dealing Center (2002-2013), Trading Director (2013-2013). In 2013 he was appointed Acting Member of the Management Board. Mr. Babayan has served as Member of the Management Board-Trading Director since December 2013.

Education:

Mr. Babayan graduated from Yerevan State University, Department of Physics.

Tigran Jrbashyan
Member of the Management Board, Development Director

Tigran Jrbashyan was a member of the Management Board of Ameriabank from November, 2008 – December, 2011 and from June, 2013 to present.

Skills and Experience:

Mr. Jrbashyan has more than 25 years of management advisory experience in key economic sectors of Armenia. He is one of the leading experts in Armenia in the fields of strategy development, elaboration of sectorial reform packages, elaboration of legal normative acts and implementation of institutional building activities. He has designed and implemented solutions that have significantly improved performance of private and public sector organizations by appropriately exploiting enterprise resources, skills and capabilities of human resources as well as increasing efficiency/designing business processes. He is an author of over 130 scientific articles and publications (on institutional economics, industrial economics, development of investment and financial markets, development of trade policy, theory of macroeconomics, integration of Armenia into EU, membership of Armenia to WTO, etc.), published in local and international magazines.

Mr. Jrbashyan joined Ameriabank as Advisor and then as Development Director in 2008. His first term as a member of the Management Board was from 2008 to 2011. He was re-appointed member of the Management Board in 2013. Currently, Mr. Jrbashyan is also Partner, Head of Management Advisory Services at Ameria.

Education:

Mr. Jrbashyan graduated from State Engineering University of Armenia with a major in engineering and mechanics. He took a post-graduate course in Moscow State Technical University after Bauman in Russia and received a PhD degree in economics from the Institute of Economic Research of Armenia.

Gohar Khachatryan
Member of the Management Board, Chief Accountant

Gohar Khachatryan was acting member of the Management Board from March 2008 until June 2008. She was appointed member of the Management Board of Ameriabank in June 2008.

Skills and Experience:

Mrs. Khachatryan has almost 30 years of experience holding key positions both in the regulatory body of the banking system and in private banks.

Mrs. Khachatryan built sterling career path in the CBA in the positions of Accountant (1991-1992), Economist (1992-1994), Chief Economist (1994), Leading Specialist (1994-2000).

Afterwards Mrs. Khachatryan joined Armimpexbank (currently Ameriabank) as Head of Balance Sheets and Reports Analyses Division, Financial Department (2000); Head of Financial Statements and Expenditures Control Department (2000-2001); Head of Administrative Accounting Division, Department of Finance (2001-2003), Chief Administrative Accountant (2003-2006); Chief Accountant/Admin Accounting Manager (2006-2008). After the acquisition of Armimpexbank by TDA Holdings, Mrs. Khachatryan was promoted to Acting Member of the Management Board/Chief Accountant and Member of the Management Board/ Chief Accountant (2008). Mrs. Khachatryan has combined her bank career with lecturing activities, and is a co-author of accounting-related publications.

Education:

Mrs. Khachatryan graduated from Yerevan Institute of National Economy with a major in Economics.

Andranik Barseghyan
Member of the Management Board, Head of Risk Management Center

Andranik Barseghyan was appointed member of the Management Board of Ameriabank in December 2009.

Skills and Experience:

Mr. Barseghyan has a distinguished career in banking, economics and risk management. Mr. Barseghyan started his career in banking technologies in the Department of Bank Technologies Automation at Armagrobank in 1995. Moving up the career ladder from an entry level to senior and leading specialist in the Automation Department, he was promoted to Chief Economist, later Head of the Liquidity and Resources Management Unit, then Head of Bank Risks Regulation Division, and finally Head of the Automation Division (1995-2002). In 2003, Mr. Barseghyan became Head of the Reporting & Analysis Division of Converse Bank. Later he was appointed Head of the Department of Risk Management and member of the Management Board of Converse Bank. Mr. Barseghyan joined Ameriabank's team in 2009 as head of the Risk Management Center and member of the Management Board.

Mr. Barseghyan has authored a number of research papers and publications locally and internationally, some of which focus on bank management. He is a member of EURO working group on financial modeling (Erasmus University, Rotterdam).

Education:

Mr. Barseghyan graduated from the State Engineering University of Armenia (SEUA), Faculty of Computer Engineering and Informatics. He received a Master's Degree at SEUA, followed by PhD in Engineering (Candidate of Technical Sciences).

GOVERNANCE REPORT

Ameriabank's key landmark is to build and retain a Dream Team with its unique corporate culture. The members of Ameria Dream Team possess great potential and innovative thinking, are purposeful, daring, flexible to changing economic environment and always up-to-date with cutting-edge technologies. Thanks to its people, Ameriabank is the leader of the Armenian banking sector by growth pace and absolute position by key financial indicators.

An organization's stability and growth are based on people who work and create together in the same culture. People are Ameriabank's greatest asset which is valued above all else. Our employees are provided with opportunities to build their careers and accomplish professional goals with the Bank, and ultimately improve the quality of life.

TRAINING & DEVELOPMENT

Ongoing professional development is an intrinsic part of Ameriabank's culture; it is based on effective synergy of self-development and guidance and investment on the part of employer. One of the essential components of our development program is executive trainings for top and mid managers, master classes conducted by world-class practitioners, professors, including founders of leading business schools with years of global expertise.
On-the-job staff training in cooperation with various international institutions is another valuable element of training and development, which has become a tradition in Ameriabank. It is also customary for Ameriabank staff to be actively involved in distance learning programs and regularly attend various webinars and international qualification programs in response to modern needs and technologies. During the last year we had a high rate of staff participation in online courses by such internationally-acclaimed institutions as Harvard Business School, Stanford University, Chartered Management Institution, CFA Institute, ACCA, PMP and others, enabling the staff to balance studies and work while acquiring most up-to-date and competitive knowledge. The Bank also maintains a continuously updated library of professional literature, both soft and paper-based.
In 2018 Ameriabank employees accomplished over 18,450 training hours (more than 20 hours per employee on an average). With primary focus to improve service excellence, more than 500 employees attended service-related trainings, both in-house and external. Our management team completed yet another series of executive leadership and mid-management development trainings to cultivate great leadership skills.

DIVERSITY AND RECRUITMENT UNDER VARIOUS SOCIAL PROGRAMS

Ameriabank is always open for enthusiastic, motivated, driven, ambitious and innovate people and is ready to invest in their professional development. For this purpose we widely practice mentoring approach to ensure smooth onboarding and integration both for beginners and experienced professionals joining the team.
Ameriabank continues to cooperate with the best universities and colleges of Armenia as well as diaspora organizations continuously expanding its network of partners. In 2018 Ameriabank successfully launched 2 "Generation A" programs, receiving more than 1000 applications and choosing the best 52 to join the Bank. This program is a perfect opportunity for 20-27 year-old graduates to gain theoretical and practical knowledge in finance and banking. They interact with experienced professionals right on the site, see how business is done, learn about the corporate culture of the Bank, and then start their career path with Ameriabank.

Ameriabank also encourages young talents to return to Armenia after completing their education or gaining professional experience abroad. For this purpose we actively cooperate with various foundations to create internship and job opportunities for this target group. Yet another reason to target diaspora candidates for Ameriabank is attracting key specialists with extensive knowledge and experience gained in international markets which can be invested in Armenia and create added value for the economy of our country.

Last but not least, Ameriabank is committed to equal opportunities policy, actively cooperating with organizations helping disabled people integrate into professional job market. Ameriabank is open and always welcomes bright and talented team members with various disabilities.

Recruitment process in Ameriabank includes internal promotions as well as external recruitment, giving current staff the opportunity to step up the career ladder and/or change their specialization. In 2018, about 13% of staff members were promoted both horizontally and vertically. Overall more than 290 new team members joined Ameriabank in 2018 to make total number of employees 891.

In 2018 several departments underwent structural change and reorganization, which was yet another opportunity for career growth and improved business efficiency through enhanced and strengthened project management, agility and operational efficiency.

EMPLOYEE BENEFITS

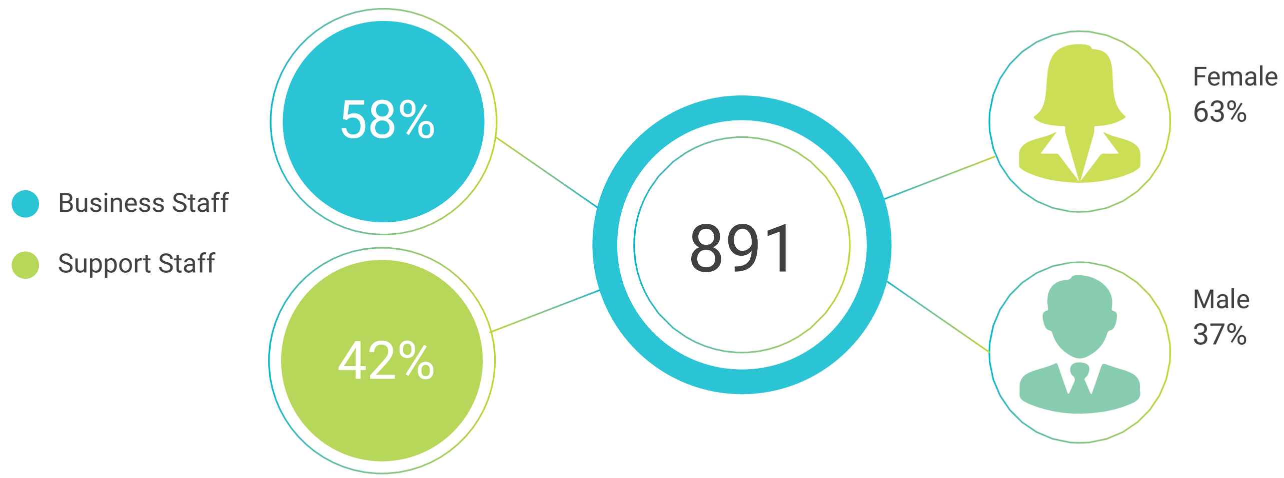
Motivating best employees is as important as nurturing young talents; the stronger the incentive, the longer and deeper the commitment and dedication to the team and organization's mission and goals. In this respect it is essential to have a robust incentive system and permanently competitive benefits package. To ensure competitiveness, since 2012 Ameriabank has been participating in salary and compensation survey of Armenia conducted by a leading audit company. The Bank also conducts satisfaction and motivation surveys among its staff and accordingly reviews and improves its package of employee benefits. Currently Ameriabank has an extensive package of benefits (special terms for banking enabling the staff to use banking services at minimum or no financial cost, health, travel and accident insurance, professional training and education opportunities, 40 hours of paid absence per year, etc.).

GOVERNANCE REPORT

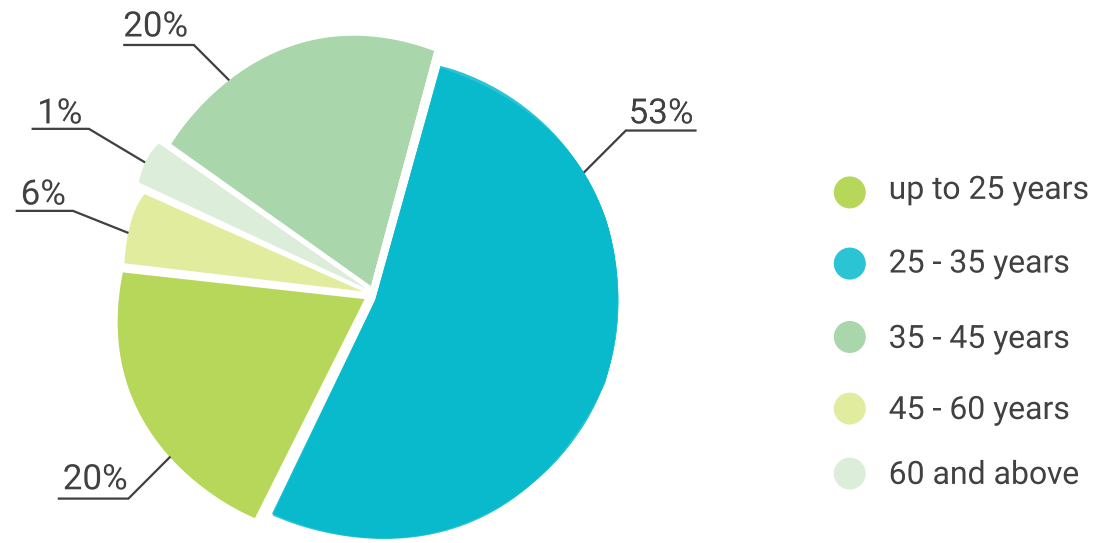
OUR PEOPLE

PEOPLE AT A GLANCE

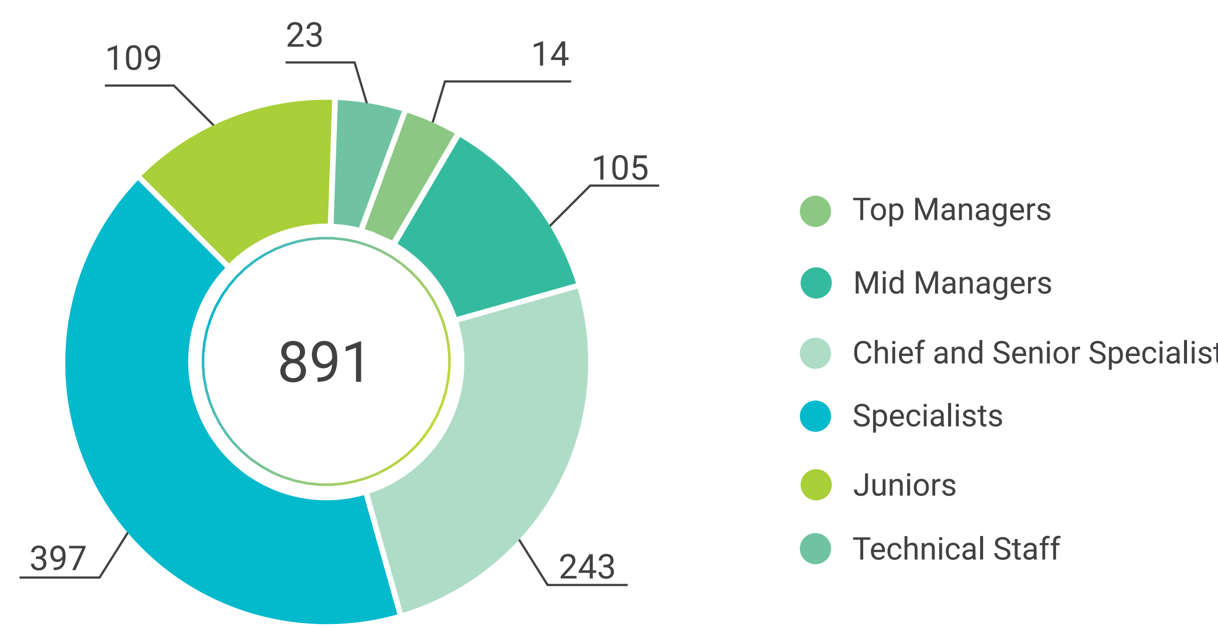
Total number of employees
(as of YE 2018)



Age group



Brakedown of the staff by positions



RESPONSIBILITY STATEMENT

STATEMENT OF THE RESPONSIBLE PERSONS OF THE REPORTING ISSUER

Hereby we state that to the best of our knowledge

- The information in the 2018 Annual Report of "Ameriabank" CJSC (hereinafter "the Issuer") is accurate and complete and in all material aspects complies with the requirements of the Republic of Armenia Law on Securities Market and the Central Bank of Armenia Regulation 4/04.
- The presented annual audited financial statements for 2018 are composed in accordance with the International Financial Reporting Standards and, in all material aspects, completely and accurately reflect the Issuer's assets and liabilities, financial position, profit and loss as of December 31 2018 as well as Issuer's financial performance and cash flows for the reporting period.

Name, Surname	Position	Signature
Artak Hanesyan	Chairman of the Management Board-General Director	
Gevorg Tarumyan	Deputy General Director, CFO	
Gohar Khachatryan	Chief Accountant	
Gagik Sahakyan	Corporate Banking Director	
Andranik Barseghyan	Head of Risk Management Center	
Arthur Babayan	Trading Director	
Arman Barseghyan	Retail Banking Director	
Tigran Jrbashyan	Development Director	

Ernst & Young CJSC
1 North Ave., office 27
Yerevan, 0001, Armenia
Tel: +374 (10) 500 790
+374 (10) 500 705
Fax: +374 (10) 500 706
www.ey.com/am

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 impairement 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

CONTENTS

FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT

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 77 were approved by the Management Board on 27 March 2019 and were signed on its behalf by:

Artak Hanesyan
General Director, Chairman of Management Board

Gohar Khachatryan
Chief Accountant

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 comprehensive income 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)**

The statement of cash flows 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 (Continued)

	Notes	2018 AMD'000	2017 AMD'000
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**

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 comprehen-sive 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.

Notes to, and forming part of, the financial statements for the year ended 31 December 2018

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 und er 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.

(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:

2. Basis of preparation (continued)

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

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.

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			*Remeasurement*		*IFRS 9*	
AMD'000	*Ref.*	*Category*	*Amount*	*Reclassification*	*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**	

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.

[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)

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.

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.

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:

3. Significant accounting policies (continued)

(d) Fair value measurement (continued)

- 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.

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.

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

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

Debt instruments at FVOCI

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.

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 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.

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.

3. Significant accounting policies (continued)

(g) Repurchase and reverse repurchase agreements (continued)

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.

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).

(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.

3. Significant accounting policies (continued)

(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.

(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.

(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.

3. Significant accounting policies (continued)

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.

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.,

3. Significant accounting policies (continued)

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

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.

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.

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.

3. Significant accounting policies (continued)

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

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.

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	(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**

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**

4. Segment information (continued)

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				
Money transfers	2,051,820	–	–	**2,051,820**
Settlements operations	278,036	664,098	–	**942,134**
Brokerage services	35,019	101,259	–	**136,278**
Cash withdrawal, account service and distance system services	2,694	26,314	155,273	**184,281**
Guarantee and letter of credit issuance	332,938	494,230	63,822	**890,990**
Other	–	261,087	–	**261,087**
Other operating income	22,320	22,320	–	**44,640**
Income from consulting services	**166,569**	**892,662**	**1,800,617**	**2,859,848**
Other income	–	721,322	1,800,617	**2,521,939**
Total revenue from contracts with customers	**166,569**	**171,340**	–	**337,909**
	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		
Money transfers	2,051,820	1,618,717
Cash withdrawal, account service and distance system services	942,134	755,527
Guarantee and letter of credit issuance	890,990	687,960
Brokerage services	261,087	258,080
Settlement operations	184,281	132,355
Other	136,278	83,937
	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:

	Stage1 AMD'000	Stage2 AMD'000	Stage3 AMD'000	Stage4 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**

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

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:

			% Controlled			
Name	*Country of incorporation*	*Main activity*	*2018*	*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**

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 2 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**

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)

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%

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.

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.

20. Loans and advances to customers (continued)

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

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.

(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*	*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**

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**

20. Loans and advances to customers (continued)

(b) Receivables from letters of credit (continued)

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:

Movements in impairment allowance for the year 2017 are 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**

	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**

	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

20. Loans and advances to customers (continued)

(c) Receivables from finance leases (continued)

	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.

(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:

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								
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**

22. Property, equipment and intangible assets

AMD'000	*Leasehold improvements*	*Computers and communication 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**

AMD'000	*Leasehold improvements*	*Computers and communication 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.

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

Current accounts and demand deposits	*2018 AMD'000*	*2017 AMD'000*
- 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).

(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.

31. Risk management (continued)

(a) Risk management policies and procedures (continued)

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.

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	10.9%	5.0%	5.0%	11.7%	3.8%	–
comprehensive income / available-for-sale financial assets	7.3%	–	1.0%	12.1%	2.8%	–
Loans and advances to banks	7.0%	3.0%	1.0%	6.4%	2.8%	–
Amounts receivable under reverse repurchase agreements	13.6%	8.6%	7.1%	13.6%	9.0%	7.42%
Loans and advances to customers	13.7%	7.3%	8.4%	14.5%	8.1%	12.0%
Receivables from finance leases	14.8%	8.6%	5.2%	14.4%	9.3%	14.0%
Receivables from factoring						
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)

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

31. Risk management (continued)

(b) Market risk (continued)

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.

	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**

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.

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.

31. Risk management (continued)

(c) Credit risk (continued)

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.

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.

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

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:

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	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)**	**-**

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.

31. Risk management (continued)

(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.

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**

31. Risk management (continued)

(d) Liquidity risk (continued)

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.

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	From1 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**			

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.

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	From1 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**			

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**

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**

33.Commitments (continued)

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.

(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)

(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:

36. Related party transactions (continued)

(c) Transactions with other related parties (continued)

Statement of financial position	Parent company AMD'000	Average interest rate, %	Shareholder with significant influence AMD'000	Average interest rate, %	Subsidiaries of the immediate parent company AMD'000	Average interest rate, %	Other entities under common control and other related parties AMD'000	Average interest rate, %	Total
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:

Statement of financial position	Parent company AMD'000	Average interest rate, %	Shareholder with significant influence AMD'000	Average interest rate, %	Subsidiaries of the immediate parent company AMD'000	Average interest rate, %	Other entities under common control and other related parties AMD'000	Average interest rate, %	Total
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.

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

(a) Accounting classifications and fair values (continued)

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.

(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*

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*
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%).