Ameriabank cjsc

Financial Statements

For the fourth quarter of 2018

Contents

Statement of comprehensive income
31-Dec-2018

Name of the Bank Ameriabank CJSC
Address Yerevan, Armenia 0010, V. Sargsyan 2, tel. 56 11 11

(thous. drams)

Item	Note	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
Interest income	5	14,730,363	53,640,166	12,175,515	49,297,198
Interest expenses	5	(6,850,816)	(26,309,095)	(7,055,014)	(30,932,889)
Net interest income		7,879,547	27,331,071	5,120,501	18,364,309
Fee and commission income	6	1,244,947	4,511,230	1,097,958	3,577,025
Fee and commission expense	7	(299,687)	(1,111,594)	(226,683)	(791,890)
Net fee and commission income		945,260	3,399,636	871,275	2,785,135
Net profit/loss on financial instruments at fair value through profit or loss	8	55,177	995,577	26,506	(1,976,234)
Net foreign exchange income	9	1,047,497	3,134,059	1,584,740	5,815,335
Net gain on financial assets at fair value through other comprehensive income		10,426	155,365	218,418	424,708
Other operating income	10	735,446	4,242,231	923,348	2,159,541
Other operating expense	10	(763,085)	(2,475,641)	(494,186)	(1,892,480)
Operating income		9,910,268	36,782,298	8,250,601	25,680,314
Impairment reversals (losses)	11	(2,476,052)	(9,403,714)	(2,575,966)	(5,811,644)
Personnel expenses		(2,158,445)	(7,936,402)	(1,808,239)	(6,240,813)
Other general administrative expenses	12	(1,833,618)	(6,118,214)	(1,094,446)	(4,091,161)
Profit before income tax		3,442,153	13,323,968	2,771,950	9,536,696
Income tax expense	13	(1,009,366)	(2,821,524)	(507,578)	(1,886,709)
Profit for the period		2,432,787	10,502,444	2,264,373	7,649,987
Other comprehensive income, net of income tax					
Increase/decrease in revaluation reserve of financial assets		79,416	(62,511)	(14,467)	30,317
Other comprehensive income for the period, net of income tax		79,416	(62,511)	(14,467)	30,317
Total comprehensive income for the period		2,512,203	10,439,933	2,249,906	7,680,304

Validation date 18.01.19

seal

General Director-Chairman of the Management Board — Artak Hanesyan

Chief Accountant — Gohar Khachatryan

Statement of Financial Position
31-Dec-2018

Name of the Bank Ameriabank CJSC
Address Yerevan, Armenia 0010, V. Sargsyan 2, tel. 56 11 11

(thous. drams)

Item	Note	31/12/18	31/12/17
Assets			
Cash and cash equivalents	14	144,353,912	107,616,368
Banking standardized bullions of precious metals		473,701	532,675
Financial instruments at fair value through profit or loss			
- Held by the Bank	15	6,290,841	3,968,064
- Pledged under sale and repurchase agreements	15	526,169	
Financial assets at fair value through other comprehensive income			
- Held by the Bank	16	11,602,128	-
- Pledged under sale and repurchase agreements	16	-	-
Available-for-sale financial assets			
- Held by the Bank	16	-	9,888,078
- Pledged under sale and repurchase agreements	16	-	-
Loans and advances to banks	17	4,947,132	10,842,890
Amounts receivable under reverse repurchase agreements	18	6,746,414	8,675,394
Loans and advances to customers at amortized cost	19	547,943,183	479,640,980
Financial assets at amortized cost			
- Held by the Bank	20	22,077,091	-
- Pledged under sale and repurchase agreements	20	16,748,372	-
Held-to-maturity investments			
- Held by the Bank	20	-	37,337,539
- Pledged under sale and repurchase agreements	20	-	5,968,305
Property, equipment and intangible assets	21	10,240,337	7,126,916
Deferred tax asset	13	200,108	-
Other assets	22	7,612,050	6,124,888
Total assets		**779,761,437**	**677,722,097**
Liabilities			
Financial instruments at fair value through profit or loss	15	20,621	686,306
Amounts payable under repurchase agreements		17,011,404	6,121,693
Deposits and balances from banks	23	43,076,769	40,004,001
Current accounts and deposits from customers	24	399,086,132	375,170,779
Debt securities issue	25	50,846,356	40,932,595
Subordinated borrowings	26	50,414,125	40,919,768
Other borrowed funds	26	120,913,209	98,128,094
Current tax liabilities	13	1,086,689	990,256
Deferred tax liabilities	13	-	1,025,103
Provision on contingent liabilities	29	140,163	-
Other liabilities	27	7,393,812	3,841,631
Total liabilities		**689,989,280**	**607,820,226**
Equity			
Share capital	28	37,300,480	32,087,360
Share premium		16,968,725	7,755,179
Revaluation reserve		347,646	338,214
Retained earnings	4	35,155,307	29,721,118
Total equity		**89,772,158**	**69,901,871**
Total liabilities and equity		**779,761,437**	**677,722,097**

Validation date 18.01.19

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General Director-Chairman of the Management Board Artak Hanesyan

Chief Accountant Gohar Khachatryan

«ԱՄԵՐԻԱԲԱՆԿ» ՓԲԸ "AMERIABANK" CLOSED JOINT-STOCK COMPANY «АМЕРИАБАНК» ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ՀՀ ք. ԵՐԵՎԱՆ RA c. YEREVAN РА г. ЕРЕВАН *02502212*

Statement of cash flows

31-Dec-2018

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0010, V. Sargsyan 2, tel. 56 11 11

(thous. drams)

Item	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Cash flows from operational activities	x	x
Interests receipts	58,733,901	45,679,533
Interests payments	(31,071,744)	(28,386,448)
Fee and commissions receipts	4,511,231	3,577,025
Fee and commissions payments	(1,111,594)	(791,890)
Net receipts from financial assets at fair value through other comprehensive income	453,772	(1,933,348)
Net receipts from foreign exchange	3,586,028	3,601,374
Other income/expenses	1,749,930	267,061
Salaries and other payments to employees	(7,105,324)	(5,726,848)
Other general administrative expense payments	(4,871,778)	(3,223,321)
Decrease (Increase) in operating assets, including:		
Financial instruments at fair value through profit or loss	(2,852,390)	(814,603)
Loans and advances to banks	5,308,269	(5,003,619)
Amounts receivable under reverse repurchase agreements	1,924,073	(2,223,000)
Loans and advances to customers at amortized cost	(89,535,970)	34,518,400
Other assets	(1,698,661)	(3,934,632)
Increase (Decrease) in other operating liabilities, including:		
Financial instruments at fair value through profit or loss	31,485	(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	26,869,856	(46,389,246)
Other liabilities	8,686,202	359,730
Net cash from (used in) operating activities before income tax paid	**(11,051,271)**	**(37,600,891)**
Income tax paid	(2,758,200)	
Net cash flows from operational activities after profit tax	**(13,809,471)**	**(37,600,891)**
Cash flows from investing activities	x	x
Purchases of property and equipment and intangible assets	(4,348,326)	(4,345,562)
Sales of property and equipment and intangible assets	-	2,048
Financial assets at fair value through other comprehensive income	(1,734,713)	2,271,834
Financial assets at amortized cost	3,748,008	(6,618,080)
Net cash flows from investing activities	**(2,335,031)**	**(8,689,760)**
Cash flows from financing activities	x	x
Dividends paid	(1,148,000)	(2,176,201)
Proceeds from issue of share capital	14,426,666	67,496,831
Net receipts of other borrowed funds	32,616,701	(72,097,598)
Receipts from issuance of debt securities	10,010,493	22,504,610
Net cash flows from financing activities	**55,905,860**	**15,727,642**
Effect of changes in exchange rates on cash and cash equivalents	(2,919,971)	2,898,505
Net increase in cash and cash equivalents	**36,841,388**	**(27,664,504)**
Cash and cash equivalents at the beginning of the period (Note 14)	**107,616,368**	**135,280,872**
Cash and cash equivalents at the end of the period (Note 14)	**144,457,756**	**107,616,368**

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Chief Accountant Gohar Khachatryan

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Statement of changes in equity
31-Dec-2018

Name of the Bank Ameriabank CJSC
Address Yerevan, Armenia 0010, V. Sargsyan 2, tel. 56 11 11

(thous. drams)

Item	Share capital	Share premium/loss	Revaluation reserve for financial assets	Retained earnings	Total
Appropriate interim period of prevous financial year (cumulative)					
Balance as of 01 January 2017	32,087,360	7,755,179	307,897	24,247,332	64,397,768
Increase/decrease in fair value of financial assets, net of income tax	-	-	30,317	-	30,317
Net profit/ loss for the period	-	-	-	7,649,987	7,649,987
Dividends				(2,176,201)	(2,176,201)
Balance as of 31 December 2017	32,087,360	7,755,179	338,214	29,721,118	69,901,871
Interim period of current financial year (cumulative)					
Balance as of 01 January 2018	32,087,360	7,755,179	338,214	29,721,118	69,901,871
Impact of adopting IFRS 9 (Note 4)	-	-	71,765	(3,920,255)	(3,848,490)
Balance after recalculation	32,087,360	7,755,179	409,979	25,800,863	66,053,381
Issue of share capital	5,213,120	9,213,546			14,426,666
Increase/decrease in fair value of financial assets, net of income tax	-	-	(62,333)	-	(62,333)
Net profit/ loss for the period	-	-	-	10,502,444	10,502,444
Dividends				(1,148,000)	(1,148,000)
Balance as of 31 December 2018	37,300,480	16,968,725	347,646	35,155,307	89,772,158

Validation date 18.01.19

seal

General Director-Chairman of the Management Board — Artak Hanesyan

Chief Accountant — Gohar Khachatryan

1 Background

(a) Organisation 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 December 23, 2015 European Bank for Reconstruction and Development purchased in full additionally issued shares of the Bank for AMD 14,366,288 thousand.
On December 21, 2016 ESPS Holding Limited purchased 13.5% of Bank shares as a result of which Ameria Group (CY) holds 65.8% of Bank shares.
On February 14, 2018 Asian Development Bank purchased additionally issued all 16.291 shares of the Bank for AMD 14,426,665 thousand.

The shareholders of the Bank as at 31 December2018 are Ameria Group (CY) 56.60%, EBRD 17.80%, ESPS Holding Limited 11.62% and ADB 13.98%.

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 the fourth quarter of 2018 was 891 (2017: 695).

Related party transactions are detailed in note 35.

(b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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 are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) 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.

(d) 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 19 "Loans to customers".

(e) 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:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank has provided the information for both the current and the comparative period in Note 39.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank's financial position and performance as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in Note 2(e), which addresses changes in 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) Financial instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Bank adopted the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and not restated comparative information.

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 amortized 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 realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss. The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.
The Bank will continue measuring at fair value all financial assets currently held at fair value. Trading debt securities will continue to be classified as FVPL. Debt and equity securities currently classified as available-for-sale are will be measured at FVOCI under IFRS 9 as the Bank expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. HTM debt securities will be measured at amortized costs. As all loans as at 31.12.17 satisfied the SPPI criterion and will continue to be measured at amortized cost.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the trade date.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- A gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss. Interest in relation to an debt financial asset at fair value through profit or loss is recognized in profit or loss as interest income using the effective interest method;
- A gain or loss on Financial instruments at fair value through profit or loss is recognized as other comprehensive income in equity (except for foreign exchange gains and losses on debt financial instruments at fair value through profit or loss) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to Financial instruments at fair value through profit or loss is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

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

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.Changes in the fair value of derivatives are recognized immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(d) 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	20 years
Computers and communication equipment	5 to 10 years
Fixtures and fittings	10 to 20 years
Motor vehicles	7 years

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

(e) 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.

(f) 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.

(g) Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortized cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

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. In this stage are grouped all those assets which have less than or equal to 30 overdue days at the Bank or less than or equal to 60 overdue days in other financial institutions of RA.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. In this stage are grouped all those assets which have more than 30 overdue days but less than or equal to 90 overdue days at the Bank or more than 60 overdue days but less than or equal to 120 overdue days in other financial institutions of RA, unless there is no management decision to move the loan to other stage.
- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECL. In this stage are grouped all those assets which have more than 90 overdue days at the Bank or more than 120 overdue days in other financial institutions of RA unless there is no management decision to move the loan to other stage.
- 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 income 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 expected credit losses.

The Bank's Management can reclassify the asset to more strict stage despite of overdue days if there is enough evidence that credit risk of the asset has increased materially.

For estimation of ECLs, the Bank considers three scenarios: base, optimistic and pessimistic scenarios. Final ECL is probability weighted average of these scenarios discounted by a weighted average EIR. 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 derecognized 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 realization of any collateral.

In calculation of PD the Bank considers those macroeconomic parameters that had material impact on the probability of default. For calculation of PD and LGD of loans and advances in the Banks, reserve repo agreements, securities measured at amortized cost or FVTOCI the Bank uses information published by international rating agencies such as Moody's, Fitch and S&P.

For stages 1 and 2 the Bank is doing collective impairment, while for the assets included in stage 3 and for POCI assets the Bank is doing both and Collective and Individual impairment. For some assets, taking into account specific features of those assets, the Bank do also individual impairment for stages 1 and 2.

(h) 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.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described above;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the allowance charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(i) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

(j) 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.

(k) 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, 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.

(l) 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.

(m) 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.

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.

(n) Segment reporting

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

(o) 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.

(p) Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(q) Leases

Finance – Bank as lessee

The Bank recognizes 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 recognized as an asset under the lease.

Finance – Bank as lessor

The Bank recognizes 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 recognized 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 recognized in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized 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.

4 Impact of adoption of IFRS 9

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

IAS 39					IFRS 9		
Item	Category	Amount	Remeasurement	Provision	Item	Amount	Category
Cash and cash equivalents	Loans and other receivables	107,616,368		(26,171)	Cash and cash equivalents	107,590,197	Amortized cost
Banking standardized bullions of precious metals	Loans and other receivables	532,675		-	Banking standardized bullions of precious metals	532,675	Amortized cost
Financial instruments at fair value through profit or loss	Financial instruments at fair value through profit or loss	3,968,064		-	Financial instruments at fair value through profit or loss	3,968,064	Financial instruments at fair value through profit or loss
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	9,888,078		(71,943)	Financial assets at fair value through other comprehensive income	9,888,078	Financial assets at fair value through other comprehensive income
Loans and advances to banks	Loans and other receivables	10,842,890		(5,338)	Loans and advances to banks	10,837,552	Amortized cost
Amounts receivable under reverse repurchase agreements	Loans and other receivables	8,675,394		(3)	Amounts receivable under reverse repurchase agreements	8,675,391	Amortized cost
Loans and advances to customers at amortized cost	Loans and other receivables	479,640,980		(4,123,278)	Loans and advances to customers at amortized cost	475,517,702	Amortized cost
Held-to-maturity investments	Amortized cost	43,305,844		(353,270)	Financial assets at amortized cost	42,952,574	Amortized cost
Other receivable amounts	Loans and other receivables			(58,032)	Financial assets at amortized cost	(58,032)	Amortized cost
Contingent liabilities	X			(262,285)	Provision on contingent liabilities	(262,285)	X
Deferred tax				980,064		X	
Total				**(3,848,312)**			

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

5 Net interest income

	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
	AMD'000	AMD'000	AMD'000	AMD'000
Interest income				
Loans to customers	13,030,954	47,053,601	10,519,785	43,010,061
Income from factoring	208,832	677,225	161,128	538,402
Available-for-sale financial assets	345,093	1,108,357	273,901	1,099,693
Receivables from finance leases	48,877	196,270	35,354	146,539
Held-to-maturity investments	752,180	3,056,988	882,530	3,052,359
Loans and advances to banks	112,739	417,820	126,544	272,792
Amounts receivable under reverse repurchase agreements	74,094	542,952	94,899	581,451
Receivables from letters of credit	142,431	471,902	61,422	519,822
Other	15,163	115,051	19,951	76,079
	14,730,363	53,640,166	12,175,515	49,297,198
Interest expense				
Current accounts and deposits from customers	2,586,270	10,669,140	3,606,323	15,143,588
Other borrowed funds and subordinated borrowing	2,823,429	10,895,124	2,503,204	10,045,393
Deposits and balances from banks	299,362	1,225,204	297,903	3,504,848
Amounts payable under repurchase agreements	249,019	281,181	18,569	30,182
Letters of credit and guarantee	179,614	631,857	80,377	408,406
Debt securities issued	713,122	2,604,298	548,638	1,770,695
Other	-	2,291	-	29,777
	6,850,816	26,309,095	7,055,014	30,932,889
Net interest income	7,879,547	27,331,071	5,120,501	18,364,309

6 Fee and commission income

	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
	AMD'000	AMD'000	AMD'000	AMD'000
Credit card maintenance	581,582	2,051,820	458,961	1,618,717
Money transfers	253,582	942,134	245,827	755,527
Guarantee and letter of credit issuance	68,676	261,087	70,323	258,080
Cash withdrawal, account service and distance system services	237,064	890,990	241,419	687,960

Settlement operations	29,695	136,278	27,116	83,937
Brokerage services	65,313	184,281	45,320	132,355
Other	9036	44,640	8,993	40,449
	1,244,947	**4,511,230**	**1,097,958**	**3,577,025**

7 Fee and commission expense

	01/10/2018-31/12/2018 AMD'000	01/01/2018-31/12/2018 AMD'000	01/10/2017-31/12/2017 AMD'000	01/01/2017-31/12/2017 AMD'000
Guarantee and letter of credit issuance	10,905	55,364	15,431	48,203
Credit card maintenance	226,944	828,537	165,724	592,739
Money transfers	46,885	169,092	36,135	120,513
Other	14,953	58,602	9,393	30,435
	299,687	**1,111,594**	**226,683**	**791,890**

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

Net gain/(loss) on financial instruments at fair value through profit or loss includes revaluation of currency and interest rate derivative instruments, which are used for hedging open currency positions.

9 Net foreign exchange income

	01/10/2018-31/12/2018 AMD'000	**01/01/2018-31/12/2018 AMD'000**	**01/10/2017-31/12/2017 AMD'000**	**01/01/2017-31/12/2017 AMD'000**
Net gain on spot transactions	985,987	3,586,028	1,259,589	3,601,374
Net gain from revaluation of financial assets and liabilities	61,510	-451,969	325,151	2,213,961
	1,047,497	**3,134,059**	**1,584,740**	**5,815,335**

10 Other operating income/(expenses)

	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
Other operating income	AMD'000	AMD'000	AMD'000	AMD'000
Income from fines and penalties	572,700	1,382,383	203,119	1,276,206
Financial consulting	58,414	2,521,939	511,270	511,270
Other income	104,332	337,909	208,959	372,065
	735,446	4,242,231	923,348	2,159,541
Other operating expenses				
Expenses on fines and penalties	-	(4,694)	(94,384)	(94,384)
Expenses from disposal of fixed assets	-	-	(142)	(200)
Encashment	(16,999)	(64,444)	(91,402)	(52,318)
Trading and brokerage activities	(34,045)	(126,706)	(27,050)	(94,384)
Guarantee payments to Armenian Deposit Guarantee Fund	(142,606)	(485,453)	(100,288)	(408,010)
Software maintenance	(88,597)	(341,874)	(77,016)	(288,189)
Payment system expenses	(176,546)	(626,757)	(138,837)	(487,142)
Other expenses	(304,292)	(825,713)	34,933	(467,853)
	(763,085)	(2,475,641)	(494,186)	(1,892,480)

11 Impairment (losses) reversals

	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
	AMD'000	AMD'000	AMD'000	AMD'000
Loans to customers	2,515,391	8,920,895	2,593,017	5,688,706
Other assets	(39,339)	482,819	(17,051)	122,938
	2,476,052	**9,403,714**	**2,575,966**	**5,811,644**

12 Other general administrative expenses

	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
	AMD'000	AMD'000	AMD'000	AMD'000
Operating lease expense	520,582	2,204,391	253,853	1,042,965
Advertising and marketing	266,003	698,705	210,172	674,755
Depreciation and amortization	373,225	1,229,353	217,809	867,840
Repairs and maintenance	90,399	319,010	79,890	316,976
Communications and information services	31,504	130,506	27,674	106,513
Travel expenses	53,132	130,458	37,407	117,628
Security	43,096	168,667	39,393	136,252
Professional services	86,801	223,635	57,535	157,877
Electricity and utilities	25,598	103,734	22,901	94,490
Insurance	10,806	36,276	7,363	30,106
Charity and sponsorship	66,856	94,191	16,354	90,384
Representation expenses	1,526	3,812	2,430	16,902
Office supplies	12,880	46,405	8,755	30,770
Taxes other than on payroll and income	7,126	24,563	13,122	25,497
Other	244,084	704,508	99,788	382,206
	1,833,618	6,118,214	1,094,446	4,091,161

13 Income tax expense

	01/10/2018-31/12/2018	01/01/2018-31/12/2018	01/10/2017-31/12/2017	01/01/2017-31/12/2017
	AMD'000	AMD'000	AMD'000	AMD'000
Current tax expense				
Current year	1,706,046	3,032,910	1,671,170	2,312,057
Deferred tax expense				
Deferred taxation movement due to origination and reversal of temporary differences	(696,680)	(211,386)	(1,163,592)	(425,348)
Total income tax expense	1,009,366	2,821,524	507,578	1,886,709

In 2018 the applicable tax rate for current and deferred tax is 20% (2017: 20%).

Reconciliation of effective tax rate:

	01/01/2018-31/12/2018 AMD'000	%	01/01/2017-31/12/2017 AMD'000	%
Profit before tax	13,323,968		9,536,696	
Income tax at the applicable tax rate	2,664,794	20.00%	1,875,875	20.00%
Non-deductible costs	156,730	1.2%	10,834	0.11%
	2,821,524	**21.18%**	**1,886,709**	**20.11%**

(a) 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 liabilities as at 31 December 2018 and as at 31 December 2017.

The deductible temporary differences do not expire under current tax legislation.

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

2018	Balance 1 January 2018 AMD'000	Impact of IFRS 9	Recognized in profit or loss AMD'000	Recognized in other comprehensive income AMD'000	Balance 31 December 2018 AMD'000
Financial instruments at fair value through profit or loss	(30,281)	-	(5,730)	-	(36,011)
Available-for-sale financial assets	(84,557)	14,389	14,503	33,760	(21,904)
Allowance for other receivables and other provisions	(197,755)	173,223	5,763	-	(18,769)
Loans to customers	(1,075,288)	792,453	99,901	-	(182,934)
Property and equipment	(68,334)	-	16,594	-	(51,740)
Other assets	25,243	-	4,550	-	29,793
Other liabilities	448,558	-	145,684	-	594,242
Other borrowed funds	(42,690)	-	(69,879)	-	(112,570)
	(1,025,104)	980,064	211,386	33,760	(554,241)

2017	Balance 1 January 2017 AMD'000	Recognized in profit or loss AMD'000	Recognized in other comprehensive income AMD'000	Balance 31 September 2017 AMD'000
Financial instruments at fair value through profit or loss	(102,874)	81,413	-	(21,461)
Available-for-sale financial assets	(76,977)	-	(11,196)	(88,173)
Allowance for other receivables and other provisions	(197,664)	(115,860)	-	(313,524)
Loans to customers	(1,336,197)	(621,829)	-	(1,958,026)
Property and equipment	(45,152)	4,570	-	(40,582)
Other assets	10,500	(4,728)	-	5,772
Other liabilities	362,234	(51,060)	-	311,174
Other borrowed funds	(56,742)	(25,849)	-	(82,591)
	(1,442,872)	**(733,344)**	**(11,196)**	**(2,187,412)**

14 Cash and cash equivalents

	31/12/18 AMD'000	31/12/17 AMD'000
Cash on hand	23,812,923	18,139,767
Nostro accounts with the CBA	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 B- to BBB+	9,023,253	5,095,603
- not rated	805,643	43,894
Total nostro accounts with other banks	**11,884,090**	**12,559,151**
Impairment	**(103,844)**	**-**
Total cash and cash equivalents	**144,353,912**	**107,616,368**

Movements in the impairment allowance of Cash and cash equivalents for fourth quarter 2018 are as follows:

	AMD'000
Balance at the beginning of the year	-
Balance at the beginning of the year recalculated per IFRS 9	26,171
Net charge	138,324
Write-offs	(60,651)
Balance at the end of the period	**103,844**

The nostro accounts with the CBA represent balances for settlement activities and also obligatory reserves allocated with CBA. There are no withdrawal restrictions on them and these amounts can be used by the Bank for settlement purposes.
No cash and cash equivalents are impaired or past due and are included in Stage 1, low credit risk assets. The above ratings are per Fitch rating agency.

As at 31 December 2018 the Bank has no bank (2017: one), whose balances exceed 10% of equity. As at 31 December 2017 the balances of bank was 7,406,733 AMD'000.

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

15 Financial instruments at fair value through profit or loss

	31/12/18 AMD'000	31/12/17 AMD'000
Assets		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	3,896,848	1,443,746
Eurobonds of the Republic of Armenia	495,621	521,780
Corporate bonds of the Republic of Armenia	1,773,153	1,049,673
Derivative financial instruments		
Interest rate swaps	84,237	62,835
Foreign currency contracts	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		
Foreign currency contracts	20,621	686,306
	20,621	686,306

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

No financial assets at fair value through profit or loss are past due or impaired.

Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2018 and 31 December 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 immature contracts are recognized in profit or loss, as appropriate.

	Fair value		Notional amount	
	2018	2017	2018	2017
	AMD'000	AMD'000	AMD'000	AMD'000
Pay fixed in USD, receive floating in USD	84,237	62,835	3,518,182	6,931,431

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-ICE floating rates for each contract, respectively. The contractual maturity of outstanding interest rate swap contracts is 2022.

16 Financial assets at fair value through other comprehensive income

	31/12/18	31/12/17
	AMD'000	AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	4,645,203	-
Eurobonds of the Republic of Armenia	3,019,309	-
Eurobonds of other countries	1,273,589	-
- Corporate bonds		
Corporate bonds of the Republic of Armenia	2,524,882	-
Equity investments		
- Unquoted equity securities at cost	139,145	-
	11,602,128	-

16 Available-for-sale financial assets

	31/12/18 AMD'000	31/12/17 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	-	4,712,578
Eurobonds of the Republic of Armenia	-	1,083,830
Eurobonds of other countries	-	2,942,639
- Corporate bonds		
Corporate bonds of the Republic of Armenia	-	1,042,572
Equity investments		
- Unquoted equity securities at cost	-	106,458
	-	**9,888,078**

As at 31 December 2018 impairment allowance of financial assets at fair value through other comprehensive income was 144,460 AMD'000, which is included in fair value. As at 01 January 2018 allowance was 71,765 AMD'000.

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

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

(a) Investments without a determinable fair value

Available-for-sale equity investments stated at cost comprise unquoted equity securities in the money transfer industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

17 Loans and advances to banks

	31/12/18 AMD'000	31/12/17 AMD'000
Due from the CBA		
Credit card settlement deposit with the CBA	1,691,000	1,423,500
Debt instruments with local banks and credit organizations		
Bonds of local banks and credit organizations	-	628,936
Loans and deposits with other banks		
Armenian banks	1,838,147	8,726,923
OECD banks	1,422,885	63,531
Total loans and deposits with other banks	3,261,032	8,790,454
Impairment	(4,900)	
Total loans and advances to banks	4,947,132	10,842,890

No loans and advances to banks are impaired or past due.

Concentration of loans and advances to banks

As at 31 December2018 the Bank has no bank (2017: one bank), whose balances exceed 10% of equity. As at 31 December 2017 the balances of bank was 8,726,923 AMD'000.

18 Amounts receivable under reverse repurchase agreements

	31/12/18 AMD'000	31/12/17 AMD'000
Amounts receivable from medium and small Armenian financial institutions	6,746,424	8,675,394
Total amounts receivable under reverse repurchase agreements	6,746,424	8,675,394
Impairment allowance	(10)	-
Total net amounts receivable under reverse repurchase agreements	6,746,414	8,675,394

Collateral

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

19 Loans and advances to customers

	31/12/18 AMD'000	31/12/17 AMD'000
Loans to legal entities	440,285,372	416,715,125
Loans to individuals	102,282,025	61,889,809
Receivables from finance lease	2,301,830	1,759,470
Receivables from factoring	10,720,377	6,752,241
Receivables from letter of credit	8,305,930	4,129,748
Gross loans and advances to customers	**563,895,534**	**491,246,393**
Impairment allowance	(15,952,352)	(11,605,412)
Net loans and advances to customers	**547,943,183**	**479,640,981**

a) Loans to legal entities and individuals

	31/12/18 AMD'000	31/12/17 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	83,612,957
Total loans to legal entities	**440,285,372**	**416,715,124**
Loans to individuals		
Mortgage loans	44,827,381	28,601,855
Other loans to individuals	57,454,643	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**	**467,310,731**

Movements in the loan impairment allowance by classes of loans to legal entities and individuals for the years 2018 and 2017 are as follows:

2018	**Loans to corporate customers**	**Loans to retail customers**	**Total**
	AMD'000	**AMD'000**	**AMD'000**
Balance at the beginning of the year	10,776,289	517,913	11,294,202
Balance at the beginning of the year recalculated per IFRS 9	14,238,850	1,017,615	15,256,465
Net charge	6,614,961	2,157,568	8,772,530
Recovery of loans previously written off	322,268	347,174	669,442
Write-offs	(7,945,596)	(797,348)	(8,742,944)
Transfer to Interest income	(131,709)	(220,576)	(352,286)
Balance at the end of the year	13,098,774	2,504,433	15,603,207

2017	**Loans to corporate customers**	**Loans to retail customers**	**Total**
	AMD'000	**AMD'000**	**AMD'000**
Balance at the beginning of the year	8,490,328	496,044	8,986,372
Net charge	5,209,942	247,855	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	10,904,258	389,945	11,294,203

Credit quality of loans to legal entities and individuals

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2018. In the table below loans to corporate customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. Description of stages is presented in Note 3, impairment paragraph.

	Stage 1		Stage 2		Stage 3	
	Gross amount AMD 000	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**
Loans to corporate customers						
Loans to large corporates						
Not impaired	**322,257,991**	**3,226,121**	**15,295,351**	**2,220,152**	-	-
Impaired	-	-	-	-	**9,078,586**	**4,524,892**
Individually impaired	-	-	-	-	9,078,586	4,524,892
Total Loans to large corporates	**322,257,991**	**3,226,121**	**15,295,351**	**2,220,152**	**9,078,586**	**4,524,892**
Loans to SME						
Not impaired	**84,646,282**	**606,514**	**3,645,490**	**529,150**	-	-
Impaired	-	-	-	-	**5,361,673**	**1,991,944**
Collectively impaired	-	-	-	-	97,497	57,086
Individually impaired	-	-	-	-	5,264,176	1,934,858
Total Loans to SME	**84,646,282**	**606,514**	**3,645,490**	**529,150**	**5,361,673**	**1,991,944**
Total Loans to corporate customers	**406,904,273**	**3,832,635**	**18,940,841**	**2,749,302**	**14,440,258**	**6,516,836**

	Stage 1		Stage 2		Stage 3	
	Gross amount AMD 000	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**
Loans to Individuals						
Mortgage						
Not impaired	**44,348,062**	**120,745**	**2,824**	**219**	-	-
Impaired	-	-	-	-	**476,495**	**170,623**
Collectively impaired	-	-	-	-	82,199	41,320
Individually impaired	-	-	-	-	394,297	129,303
Total Mortgage	**44,348,062**	**120,745**	**2,824**	**219**	**476,495**	**170,623**
Other loans to Individuals						

Not impaired	**53,513,408**	**917,878**	**477,167**	**128,351**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**	**3,464,068**	**1,166,617**
Collectively impaired	-	-	-	-	1,391,530	882,219
Individually impaired	-	-	-	-	2,072,538	284,397
Total Other loans to Individuals	**53,513,408**	**917,878**	**477,167**	**128,351**	**3,464,068**	**1,166,617**
Total Loans to Individuals	**97,861,469**	**1,038,623**	**479,992**	**128,571**	**3,940,564**	**1,337,239**

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2017 recalculated per IFRS 9.

	Stage 1		**Stage 2**		**Stage 3**	
	Gross amount AMD 000	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**
Loans to corporate customers						
Loans to large corporates						
Not Impaired	**306,387,785**	**2,328,606**	**19,299,812**	**3,540,606**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**	**7,414,570**	**4,590,908**
Individually impaired	**-**	**-**	**-**	**-**	7,414,570	4,590,908
Total Loans to large corporates	**306,387,785**	**2,194,898**	**19,299,812**	**3,501,899**	**7,414,570**	**4,590,908**
Loans to SME						
Not Impaired	**73,411,181**	**610,267**	**3,122,161**	**572,769**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**	**7,074,620**	**2,595,694**
Collectively impaired	-	-	-	-	159,949	99,731
Individually impaired	-	-	-	-	6,914,671	2,495,963
Total Loans to SME	**73,416,176**	**610,267**	**3,122,161**	**572,769**	**7,074,620**	**2,595,694**
Total Loans to corporate customers	**379,803,961**	**2,938,873**	**22,421,973**	**4,113,375**	**14,489,190**	**7,186,602**

	Stage 1		Stage 2		Stage 3	
	Gross amount AMD 000	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**
Loans to Individuals						
Mortgage						
Not Impaired	**27,804,694**	**149,847**	**45,904**	**8,319**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**	**751,530**	**239,754**
Collectively impaired	-	-	-	-	58,588	38,695
Individually impaired	-	-	-	-	692,942	201,058
Total Mortgage	**27,804,694**	**149,847**	**45,904**	**8,319**	**751,530**	**239,754**
Other loans to Individuals						
Not Impaired	**30,741,792**	**142,036**	**225,501**	**41,504**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**	**2,325,383**	**549,034**
Collectively impaired	-	-	-	-	99,518	67,643
Individually impaired	-	-	-	-	2,225,864	481,392
Total Other loans to Individuals	**30,737,070**	**142,036**	**225,501**	**41,504**	**2,325,383**	**549,034**
Total Loans to Individuals	**58,541,491**	**204,014**	**271,405**	**44,149**	**3,076,913**	**769,452**

Key assumptions and judgments for estimating the loan impairment

Loans to customers

The Bank records loan allowances based on expected credit losses (ECL) principle.
The ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. For ECL calculation the Bank takes into account following criteria:

- Overdue days of the loan agreement at the Bank or in banking system of RA,
- Significant increase in credit risk of the loan
- Deterioration of macroeconomic indicators and their possible effect on the borrower financial performance.

For stages 1 and 2 the Bank is doing collective impairment, while for the loans included in stage 3 and for POCI loans the Bank is doing both and collective and individual impairment.

For evaluation of individual impairment the Bank's management takes into account following considerations:

- The Bank discounts from 10% to 20% liquidation value of the pledge,
- Expected period of cash inflows from the realization of the pledge is assumed to be 18 months.

Analysis of collateral

Loans to corporate customers

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

The main types of collateral obtained are as follows:

For securities lending and reverse repurchase transactions, cash or securities;

For commercial lending, charges over real estate properties, inventory and trade receivables; cash collateral

For retail lending, mortgages over residential properties.

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

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

The 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.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%.

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 2018, the Bank obtained certain assets by taking possession of collateral for loans to corporate customers amounting AMD 2,032,546 (2017: AMD 617,777 thousand). As at 31 December 2018 the repocessed 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.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers who operate in the following economic sectors:

	31/12/18 AMD'000	31/12/17 AMD'000
Wholesale trade	97,911,992	77,660,198
Finance and investment	43,073,908	74,110,288
Mining/Metallurgy	61,847,784	51,048,122
Hotel service	37,495,210	32,463,343
Construction	23,371,992	30,072,853
Agriculture, forestry and timber	18,570,577	27,180,750
Food and beverage	23,692,826	21,641,394
Retail trade	28,884,100	21,081,805
Power generation	21,980,801	17,184,852
Real estate	12,375,233	13,297,236
Communication services	20,615,886	13,161,817
Manufacturing	7,483,763	9,459,381
Transportation	28,449,596	7,827,878
Other	14,531,704	20,525,208
Loans to retail customers	102,282,025	61,889,809
	542,567,397	**478,604,934**
Impairment allowance	(15,603,207)	(11,294,202)
	526,964,190	**467,310,731**

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

	31/12/18 AMD'000	31/12/17 AMD'000
Armenia	351,974,114	312,607,979
OECD and EU	35,463,833	46,222,319
Other foreign countries	39,748,652	47,108,538
	427,186,599	**405,938,835**

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 equity. The gross value of these loans as at 31 December 2018 is AMD 124,491,863 thousand (31 December 2017: AMD 163,847,088 thousand).

Loan maturities

The maturity of the loan portfolio is presented in note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(a) Receivables from letters of credit

	31/12/18 AMD'000	31/12/17 AMD'000
Receivables from letters of credit, gross amount	8,305,930	4,129,748
Impairment allowance	(37,391)	(8,259)
	8,268,539	**4,121,489**

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

Movements in impairment allowance for the 2018 and for the year of 2017 are as follows:

	31/12/18 AMD'000	31/12/17 AMD'000
Balance at the beginning of the year	8,259	15,445
Balance at the beginning of the year recalculated per IFRS 9	128,433	-
Net charge	(91,042)	(7,186)
Write-offs	-	-
Balance at the end of the year	**37,391**	**8,259**

(b) Receivables from finance leases

	31/12/18 AMD'000	31/12/17 AMD'000
Gross investment in finance leases receivable:		
Less than one year	1,030,383	491,429
Between one and five years	1,094,116	947,298
More than five years	769,321	908,848
	2,893,820	**2,347,575**
Unearned finance income	(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	422,445	423,387
Between one and five years	992,485	634,289
More than five years	609,275	412,348
	2,024,205	**1,470,024**

Quality analysis of finance leases

The following table provides information on the quality analysis of finance leases as at 31 December2018:

	Stage 1		Stage 2		Stage 3	
	Gross amount AMD 000	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**
Leasing						
Neither past due nor impaired	**1,863,354**	**12,064**	-	-	-	-
Individually impaired	-	-	-	-	438,476	265,561
Total Leasing	**1,863,354**	**12,064**	**-**	**-**	**438,476**	**265,561**

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

	Stage 1		Stage 2		Stage 3	
	Gross amount AMD 000	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**	**Gross amount AMD 000**	**ECL AMD 000**
Leasing						
Neither past due nor impaired	**1,059,161**	**8,479**	**92,975**	**15,466**	**-**	**-**
Individually impaired					**607,659**	**313,220**
Total Leasing	**1,059,161**	**8,479**	**92,975**	**15,466**	**607,659**	**313,220**

Concentration of receivables from finance leases

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

Movement in impairment allowance

Movements in impairment allowance for the 2018 and for the year of 2017 are as follows:

	31/12/18 AMD'000	**31/12/17 AMD'000**
Balance at the beginning of the year	289,446	61,694
Balance at the beginning of the year recalculated per IFRS 9	334,115	-
Net charge	214,168	232,973
Write-offs	(270,658)	(5,221)
Balance at the end of the year	**277,625**	**289,446**

Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

Geographical analysis of the finance lease portfolio

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

(c) Receivables from factoring

	31/12/18 **AMD'000**	31/12/17 **AMD'000**
Receivables from factoring	10,720,377	6,752,241
Impairment allowance	(34,128)	(13,504)
	10,686,249	6,738,737

As at 31 December 2018 the Bank has one customers whose balances exceed 10% of equity (2017: nil). The gross value of the customer as at 31 December 2018 is AMD 9,642,384 thousand.

As at 31 December 2018 the Bank has no impaired or overdue receivables from factoring.

Movements in impairment allowance of 2018 and for the year of 2017 are as follows:

	31/12/18 **AMD'000**	**31/12/17** **AMD'000**
Balance at the beginning of the year	13,504	8,382
Balance at the beginning of the year recalculated per IFRS 9	9,116	-
Net charge	24,452	5,122
Write-offs/Recovery	-	-
Balance at the end of the year	34,128	13,504

20 Financial assets at amortized cost

	31/12/18 AMD'000	31/12/17 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	8,247,384	-
Eurobonds of the Republic of Armenia	13,480,810	-
Eurobonds of the Republic of Armenia	13,480,810	
- Corporate bonds		
Corporate bonds of foreign companies	787,604	-
	22,515,798	-
Pledged under sale and repurchase agreements		
Eurobonds of the Republic of Armenia	16,748,372	-
	16,748,372	-
Total financial asset at amortized cost	39,264,170	-
Impairment	(438,707)	-
Total net financial asset at amortized cost	38,825,463	

20 Held-to-maturity investments

	31/12/18 AMD'000	31/12/17 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	-	30,734,671
Eurobonds of the Republic of Armenia	-	2,520,028
Government securities of other countries	-	3,881,887
- Corporate bonds		
Corporate bonds of foreign companies	-	-
Other	-	200,953
	-	37,337,539
Pledged under sale and repurchase agreements		
Government securities of the Republic of Armenia	-	-
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

Movements in impairment allowance of financial assets at amortized cost for 2018 are as follows:

	AMD'000
Balance at the beginning of the year	-
Balance at the beginning of the year recalculated per IFRS 9	353,112
Net charge	85,595
Write-offs	-
Balance at the end of the period	**438,707**

21 Property, equipment and intangible assets

AMD'000	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/Revalued amount						
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)	(0)	(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	199,419	1,505,597	10,240,337

AMD'000	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/Revalued amount						
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)
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**

There are no capitalized borrowing costs related to the acquisition or construction of property or equipment during 2018 (2017: nil).

22 Other assets

	31/12/18 AMD'000	31/12/17 AMD'000
Brokerage accounts	244,954	56,458
Receivables from banking services	2,119,304	1,100,692
Restricted accounts with clearing houses	447,384	351,161
Total other financial assets	**2,811,642**	**1,508,311**
Prepayments to suppliers	1,880,690	2,162,958
Repossessed assets	2,777,623	1,479,534
Small value assets	145,357	126,681
Other	10,243	524,894
Total other non-financial assets	**4,968,389**	**4,742,791**
Total other assets	**7,780,031**	**6,251,102**
Impairment	**(167,981)**	**(126,215)**
Total other assets	**7,612,050**	**6,124,887**

Movements in the impairment allowance for other assets for 2018 and for the year of 2017 are as follows:

	31/12/18 AMD'000	31/12/17 AMD'000
Balance at the beginning of the year	126,214	89,162
Balance at the beginning of the year recalculated per IFRS 9	184,246	
Net charge	137,705	122,937
Write-offs	(153,970)	(85,884)
Balance at the end of the year	167,981	126,215

23 Deposits and balances from banks

	31/12/18 AMD'000	31/12/17 AMD'000
Short term loans and term deposits from commercial banks	23,530,588	24,360,593
Long term loans and term deposits from commercial banks	3,421,295	1,924,673
Borrowings from CBA (through international programs)	7,078,390	7,389,309
Liabilities for letters of credit	8,625,734	6,012,307
Vostro accounts	420,762	317,119
	43,076,769	40,004,001

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

Borrowings from CBA

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".

24 Current accounts and deposits from customers

	31/12/18 AMD'000	31/12/17 AMD'000
Current accounts and demand deposits		
- Retail	61,904,034	47,010,214
- Corporate	145,889,262	113,246,453
Term deposits		
- Retail	133,060,914	133,849,820
- Corporate	58,231,922	81,064,292
	399,086,132	**375,170,779**

As at 31 December 2018, the Bank has four customer (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 (As at 31 December 2017 is AMD 44,219,735 thousand).

25 Debt securities issue

	31/12/18 AMD'000	31/12/17 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**

Promissory notes: 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.

Domestic bonds issued: As at December 2018 the Bank has issued debt securities denominated in AMD, USD and EUR, which nominal amount is AMD 5 billion, USD 81 million and EUR 3 million accordingly. As at 31 December 2018 carrying value of the bonds is AMD'000 5,090,669, AMD'000 39,469,585 and AMD'000 1,673,414 accordingly.

Bonds issued by the Bank are listed in Nasdaq OMX Armenia stock exchange.

26 Other borrowed funds and subordinated borrowings

	31/12/18 AMD'000	31/12/17 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 December2018, the Bank has seven financial institutions (31 December 2017: eight), whose balances exceed 10% of equity. These balances as at 31 December 2018 are AMD 127,166,023 thousand (31 December 2017: AMD 116,032,654 thousand).

b. Subordinated borrowing

As at 31 December 2018 subordinated borrowing represents:

- Borrowing received from a related party (AMD 5,924,274 thousand) maturing on 11 January 2021.The lender has right to demand to transform the loan or any part of it, including accrued interest, into the share capital of the Bank through issuance of additional shares.
- Borrowing received from other financial institution
  9,959,933 AMD'000 maturing on 23 September 2020,
  4,429,056 AMD'000 maturing on 15 January 2026,
  4,854,986 AMD'000 maturing on 15 January 2027
- Borrowing received from international financial institutions (AMD 25,229,404 thousand) maturing on 11 January 2022.

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.

27 Other liabilities

	31/12/18 AMD'000	31/12/17 AMD'000
Payables to staff	2,944,207	2,173,129
Accrued expenses	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**

28 Share capital and treasury shares

(a) Issued capital and share premium

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.

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

The revaluation reserve for financial 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.

During the four quarter of 2018 the Bank has dividends paid amounting to AMD 1,148,000 thousand (During four quarters of 2017 the Bank has been accrued dividends amounting to AMD 2,176,201 thousand).

29 Impairment allowance on contingent liabilities

	31/12/18 AMD'000	31/12/17 AMD'000
	Amount	Provision
Contracted amount		
Guarantees	7,736,599	18,423
Letters of credit	167,851	382
Loan and credit line commitments	35,612,702	121,358
	43,517,152	140,163

Movements in the impairment allowance for contingent liabilities for 2018 are as follows:

	Guarantees	Letters of credit	Loan and credit line commitments	Total
Balance at the beginning of the year recalculated per IFRS 9	103,555	1,311	28,266	133,132
Net charge	(85,133)	(928)	93,093	7,031
Write-offs	-	-	-	-
Balance at the end of the period	18,423	382	121,358	140,163

30 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

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

(b) Market risk

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

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

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

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

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

(i) Interest rate risk

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

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Asset and Liabilites Department in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	***Less than 3 months***	***3-6 months***	***6-12 months***	***1-5 years***	***More than 5 years***	***Non-interest bearing or overdue***	***Carrying amount***
31-Dec-18							
Assets							
Cash and cash equivalents	-	-	-	-	-	144,353,912	144,353,912
Available-for-sale financial assets	159,140	88,469	172,792	5,346,073	5,696,510	139,145	11,602,128
Loans and advances to banks	3,256,132	-	-	-	-	1,691,000	4,947,132
Amounts receivable under reverse repurchase agreements	6,746,414	-	-	-	-	-	6,746,414
Loans to customers	48,373,191	65,997,365	53,629,319	243,848,641	108,214,381	6,901,292	526,964,190
Receivables from letters of credit	230,664	4,524,030	1,123,306	2,390,538	-	-	8,268,539
Receivables from finance leases	112,142	108,058	202,245	992,485	436,361	172,915	2,024,205
Receivables from factoring	3,264,453	7,137,091	284,705	-	-	-	10,686,249
Held-to-maturity investments	938,553	5,512,164	68,119	29,109,282	3,197,346	-	38,825,463
	63,080,689	83,367,176	55,480,487	281,687,018	117,544,597	153,258,264	754,418,231
Liabilities							
Deposits and balances from banks	(19,665,003)	(6,905,009)	(6,537,512)	(8,564,467)	(1,404,778)	-	(43,076,769)
Amounts payable under repurchase agreements	(17,011,404)	-	-	-	-	-	(17,011,404)
Current accounts and deposits from customers	(47,304,726)	(33,337,518)	(74,496,960)	(36,083,613)	(70,019)	(207,793,296)	(399,086,132)
Debt securities issue	(10,718,023)	(6,599,784)	(5,910,541)	(20,738,442)	(6,879,567)	-	(50,846,356)
Subordinated borrowings	(35,016,680)	(16,790)	-	(5,917,092)	(9,463,564)	-	(50,414,125)
Other borrowed funds	(75,778,457)	(24,763,722)	(2,736)	(20,354,631)	(13,663)	-	(120,913,209)
	(205,494,293)	(71,622,822)	(86,947,750)	(91,658,245)	(17,831,590)	(207,793,296)	(681,347,995)
Effect of derivatives	3,078,409	-	(439,773)	(2,638,636)	-	-	-
Net position	(139,335,195)	11,744,354	(31,907,036)	187,390,138	99,713,007	(54,535,032)	73,070,236

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Non-interest bearing or overdue*	*Carrying amount*
31-Dec-17							
Assets							
Cash and cash equivalents	-	-	-	-	-	107,616,368	107,616,368
Available-for-sale financial assets	71,032	11,148	227,212	5,553,955	3,918,271	106,460	9,888,078
Loans and advances to banks	8,739,698	3,003	194,200	419,556	-	1,486,433	10,842,890
Amounts receivable under reverse repurchase agreements	8,675,394	-	-	-	-	-	8,675,394
Loans to customers	45,210,195	26,637,844	42,751,699	269,762,881	73,670,449	9,277,663	467,310,731
Receivables from letters of credit	538,877	2,677,960	54,827	849,825	-	-	4,121,489
Receivables from finance leases	80,569	82,547	148,088	363,572	499,991	295,257	1,470,024
Receivables from factoring	5,112,354	1,626,383	-	-	-	-	6,738,737
Held-to-maturity investments	3,976,655	6,283,038	-	30,779,169	2,266,982	-	43,305,844
	72,404,774	**37,321,923**	**43,376,026**	**307,728,958**	**80,355,693**	**118,782,181**	**659,969,555**
Liabilities							
Deposits and balances from banks	(11,315,455)	(10,279,331)	(9,743,119)	(7,566,112)	(1,099,985)	-	(40,004,002)
Amounts payable under reverse repurchase agreements	(6,121,693)	-	-	-	-	-	(6,121,693)
Current accounts and deposits from customers	(49,540,771)	(33,847,623)	(72,872,974)	(58,579,433)	(73,308)	(160,256,670)	(375,170,779)
Debt securities issue	(10,044,318)	-	(9,768,608)	(21,119,668)	-	-	(40,932,594)
Subordinated borrowings	(34,991,181)	-	-	(5,928,587)	-	-	(40,919,768)
Other borrowed funds	(51,515,318)	(46,549,396)	(2,719)	(29,592)	(31,069)	-	(98,128,094)
	(163,528,735)	**(90,676,350)**	**(92,387,420)**	**(93,223,392)**	**(1,204,362)**	**(160,256,670)**	**(601,276,929)**
Effect of derivatives	4,565,943	-	(1,045,216)	(3,520,727)	-	-	-
Net position	**(86,558,018)**	**(53,354,427)**	**(50,056,610)**	**210,984,839**	**79,151,331**	**(41,474,489)**	**58,692,626**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December2018 and 31 December 2017.

	2018			**2017**		
	Average effective interest rate, %			**Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Available-for-sale financial assets	10.9%	5.4%	0.05	11.7%	3.8%	-
Loans and advances to banks	7.3%	0.0%	0.01	0.0%	2.8%	-
Amounts receivable under reverse repurchase agreements	6.6%	3.0%	0.90%	6.4%	2.8%	–
Loans to customers	13.6%	8.6%	7.1%	13.6%	9.0%	8.9%
Receivables from finance leases	13.7%	7.3%	8.4%	14.5%	8.1%	12.0%
Receivables from factoring	14.8%	8.6%	5.2%	14.4%	9.3%	14%
Held-to-maturity investments	9.0%	5.7%	–	9.7%	4.1%	-
Interest bearing liabilities						
Deposits and balances from banks	6.7%	3.3%	0.6%	6.2%	2.5%	1.0%
Debt securities issue	9.7%	5.4%	3.3%	10.0%	5.8%	3%
Term deposits	9.0%	4.1%	3.0%	11.3%	4.6%	3.1%
Subordinated borrowings	-	9.4%	0.1	0.0%	8.5%	-
Other borrowed funds	7.9%	6.1%	3%	8.9%	5.9%	-

(ii) 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.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December2018:

	USD	**EUR**	**Other currencies**	**Total**
2018	**AMD'000**	**AMD'000**	**AMD'000**	**AMD'000**
ASSETS				
Cash and cash equivalents	12,701,409	46,349,316	5,225,918	64,276,643
Banking standardized bullions of precious metals	-	-	473,701	473,701
Financial instruments at fair value through profit or loss	1,750,450	80,331	-	1,830,781
Available-for-sale financial assets	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
Loans to customers	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
Held-to-maturity investments	13,480,810	-	-	13,480,810
Other financial assets	2,073,597	302,581	351,499	2,727,677
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	295,217,026
Subordinated borrowings	41,113,611	9,300,514.00	-	50,414,125
Other borrowed funds	71,682,222	37,904,405.00	-	109,586,627
Debt securities issue	44,082,273	1,673,414.00	-	45,755,687
Other financial liabilities	1,523,212	555,423	23,638	2,102,274
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	**EUR**	**Other currencies**	**Total**
2017	**AMD'000**	**AMD'000**	**AMD'000**	**AMD'000**
ASSETS				
Cash and cash equivalents	25,075,556	5,331,961	4,107,302	34,514,819
Banking standardized bullions of precious metals	-	-	532,675	532,675
Financial assets at fair value through profit and 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	8,954,329	174,030	11,240	9,139,599
Amounts receivable under reverse repurchase agreements	852,065	-	-	852,065

Loans to customers	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	12,565,111	-	-	12,565,111
Other financial assets	1,530,736	198,305	56,153	1,785,194
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 payable 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
Subordinated borrowings	40,919,768	-	-	40,919,768
Other borrowed funds	88,171,140	-	-	88,171,140
Debt securities issue	36,597,654	1,753,359	-	38,351,013
Other financial 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 as at 31 December2018 and 31 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. 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		2017p.	
	Appreciation	Profit or loss AMD'000	Appreciation	Profit or loss AMD'000
AMD against USD	6.00%	(629,074)	6.00%	(277,215)
AMD against EUR	11.00%	(46,122)	11.00%	(3,350)

A weakening of the AMD against the above currencies at 31 December 2018 and 31 December 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.

(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 (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing control and monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. 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. Retail loan 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 to customers and concentration of credit risk in respect of loans to customers refer to note 19.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 32.

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.

(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 table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December2018:

AMD’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	144,353,912	-	-	-	-	-	-	**144,353,912**
Banking standardized bullions of precious metals	-	-	-	-	-	473,701	-	**473,701**
Financial instruments at fair value through profit or loss	323,197	139,695	328,036	3,058,640	2,967,442	-	-	**6,817,010**
Available-for-sale financial assets	72,704	86,435	261,261	5,346,073	5,696,510	139,145	-	**11,602,128**
Loans and advances to banks	3,256,132	-	-	-	-	1,691,000	-	**4,947,132**
Amounts receivable under reverse repurchase agreements	6,746,414	-	-	-	-	-	-	**6,746,414**
Loans to customers	26,971,795	23,059,924	121,233,307	242,571,649	106,226,222	-	6,901,292	**526,964,190**
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	**2,024,205**
Receivables from factoring	430,846	2,833,607	7,421,796	-	-	-	-	**10,686,249**
Held-to-maturity investments	349,559	588,993	5,580,283	29,109,282	3,197,346	-	-	**38,825,463**
Property, equipment and intangible assets	-	-	-	-	-	10,240,337	-	**10,240,337**
Current tax asset			200,108					**200,108**
Other assets	2,375,271	2,777,413	2,008,052	-	-	451,314	-	**7,612,050**
Total assets	**184,964,184**	**29,744,521**	**142,990,482**	**283,468,667**	**118,523,880**	**12,995,497**	**7,074,207**	**779,761,438**
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	12,771,786	6,893,217	13,442,521	8,564,467	1,404,778	-	-	**43,076,769**
Current accounts and deposits from customers	233,271,578	21,826,444	107,834,478	36,083,613	70,019	-	-	**399,086,132**
Debt securities issue	111,329	2,696,535	13,759,546	34,278,947	-	-	-	**50,846,356**
Subordinated borrowings	1,190,128	435,488	-	48,788,508	-	-	-	**50,414,125**
Other borrowed funds	3,307,081	4,583,899	18,548,970	94,459,121	14,139	-	-	**120,913,209**
Current tax liability			-					**-**
Deferred tax liability	-	-	1,086,689	-	-	-	-	**1,086,689**
Other liabilities	463,125	3,502,688	3,568,162	-	-	-	-	**7,533,975**
Total liabilities	**268,147,051**	**39,938,271**	**158,240,365**	**222,174,657**	**1,488,935**	**-**	**-**	**689,989,280**
Net position	**(83,182,868)**	**(10,193,750)**	**(15,249,883)**	**61,294,010**	**117,034,945**	**12,995,497**	**7,074,207**	**89,772,157**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	107,616,368	-	-	-	-	-	-	**107,616,368**
Banking standardized bullions of precious metals	-	-	-	-	-	532,675		**532,675**
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	-	-	228,028	5,626,045	3,927,545	106,461	-	**9,888,078**
Loans and advances to banks	9,356,457	-	-	-	-	1,486,434	-	**10,842,890**
Amounts receivable under reverse repurchase agreements	8,675,394	-	-	-	-	-	-	**8,675,394**
Loans to customers	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	87,826	472,145	2,716,696	844,822	-	-	-	**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**	**677,401**	**3,442,530**	**-**	**-**	**355,091**	**-**	**6,124,888**
Total assets	**145,863,976**	**34,157,070**	**76,087,119**	**293,627,088**	**108,806,351**	**9,607,577**	**9,572,919**	**677,722,098**
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	**50,054,889**	**(32,002,985)**	**(121,169,353)**	**52,116,998**	**101,721,829**	**9,607,577**	**9,572,919**	**69,901,872**

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 2018 and during the reporting period are as follows:

	2018 AMD'000	**2017 AMD'000**
At 31 December(unaudited)	89%	123%
Average for December (unaudited)	79%	126%

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

31 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 requirements of the Central Bank of Armenia, as at 31 December 2018 and 31 December 2017:

	31/12/18 AMD'000 Unaudited	31/12/17 AMD'000 Unaudited
Tier 1 capital		
Share capital	37,300,480	32,087,360
Share premium	16,968,726	7,755,180
General reserve	4,809,146	4,424,146
Retained earnings	30,376,714	20,510,460
Deductions	(6,655,675)	(4,342,458)
Total tier 1 capital	82,799,391	60,434,688
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	184,477	338,214
Subordinated borrowing (not greater than 50% of tier 1 capital)	26,892,789	25,560,480
Total tier 2 capital	27,077,266	25,898,694
Total capital	109,876,657	86,333,382
Total risk weighted assets	713,735,277	660,088,644
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	15.39%	13.08%

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.

32 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 customers.

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.

	31/12/18 AMD'000	31/12/17 AMD'000
Contracted amount		
Guarantees	7,736,599	7,864,530
Letters of credit	167,851	319,128
Credit card commitments	13,602,109	9,245,979
Loan and credit line commitments	18,237,090	19,807,875
Undrawn overdraft facilities	3,773,503	5,661,585
	43,517,152	42,899,097

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.

33 Operating leases

(a) Leases as lessee

Non-cancelable operating lease rentals as at 31 December 2018 and 31 December 2017 are payable as follows:

	2018 AMD'000	2017 AMD'000
Less than 1 year	1,263,358	1,419,525
Between 1 and 5 years	1,207,038	1,285,131
More than 5 years	411,576	361,451
	2,881,973	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).

34 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. The Bank has up to AMD 7,021,000 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.

35 Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 56.6% of the share capital.

The ultimate controler and final beneficiary owner of the Bank is 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 2018 and 2017 are as follows:

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

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average interest rates as at 31 December 2018 and 31 December 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 asset	1,832	0.00%	1,893	0.00%
Deposits received	460,725	5.74%	674,074	5.70%
Subordinated borrowing	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%

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the periods ending 31 December 2018 and 31 December 2017 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

	Parent company		Shareholder with significant influence		Other subsidiaries of the parent company		Other		Total
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**
Statement of financial position									
ASSETS									
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Loans to customers	-	-	-	-	-	-	4,061,715	6.66%	4,061,715
Other asset	-	-	62,619		879,324	-	-	-	941,942
LIABILITIES									
Financial instruments at fair value through profit or loss									
Current accounts and deposits from customers									
- Current accounts and demand deposits	20,562	0.0%	62,690	0.0%	1,085,613	0.0%	1,376,258	0.0%	2,545,123
- Term deposits	-		-		659,326	4.00%	77,155	6.47%	736,481
Other borrowing			21,215,696	6.04%					21,215,696
Other liabilities	-	0.0%	13,209	0.0%	-		-		13,209
Items not recognised in the statement of financial position									
Guarantees given							-	-	-
Profit (loss)									
Interest income	-		-		-		575,789		575,789
Interest expense	-		(1,384,459)		(21,291)		(337,771)		(1,743,521)
Other expense			-		(1,627,177)				(1,627,177)

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

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 quarter ended 31 December 2017 with other related parties are as follows:

	Parent company		**Shareholder with significant influence**		**Subsidiaries of the parent company**		**Entities under common control and other related parties**		**Total**
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**
Statement of financial position									
ASSETS									
Financial instruments at fair value through profit or loss							645,001		**645,001**
Loans 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 borrowing			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**
Profit (loss)									
Interest income			1,371				4,360,124		4,361,4958
Interest expense			(1,135,191)		(21,325)		(3,864,603)		(5,021,119)
Other expense					(17,055)		(98,978)		(116,033)