PROGRAM PROSPECTUS

FOR BONDS ISSUED BY
CONVERSE BANK CLOSED JOINT STOCK COMPANY

Yerevan 2019

PROGRAM PROSPECTUS

CONVERSE BANK CLOSED JOINT STOCK COMPANY

Issuer's trade name, organizational/legal form

26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Republic of Armenia

Tel. (+374 10) 511-200, (+374 10) 511-211

Email post@conversebank.am

Website www.conversebank.am

CONVERSE BANK CLOSED JOINT STOCK COMPANY

Main Issuer's name, organizational/legal form

26/1 Vazgen Sargsyan, Republic Square, 0010 Yerevan, Republic of Armenia

Tel. (+374 10) 511-200, (+374 10) 511-211

Email post@conversebank.am

Website www.conversebank.am

FILING OF THE PROSPECTUS WITH THE CENTRAL BANK OF ARMENIA SHALL BY NO MEANS CONFIRM THE SAFETY OF INVESTMENT, ACCURACY OR AUTHENTICITY OF INFORMATION.

Type of securities:	Registered, coupon bond
Form of security:	Dematerialized
Par value per security:	USD 100 (one hundred), AMD 100,000 (one hundred thousand)
Total quantity of issue:	150,000 (one hundred and fifty thousand) with USD, 20,000 (twenty thousand) with AMD
Total value of issue:	USD 15,000,000 (fifteen million), AMD 2,000,000,000 (two billion)
Value per tranche:	To be determined by the Bank Board for each tranche
Quantity per tranche:	Based on total value and par value per tranche
Annual coupon yield:	To be determined by the Bank Board for each tranche
Flotation period:	To be determined by the Bank Board for each tranche
Coupon payment frequency:	To be determined by the Bank Board for each tranche
Form of issue:	Non-underwritten

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RESPONSIBLE PARTIES

We, the undersigned, assure that we have made all reasonable efforts to ascertain the accuracy and integrity of the included information. Therefore, we assure that to the best of our knowledge the information included in the Prospectus is accurate and integral and contains no omission that may misrepresent the substance of the Prospectus.

Signatories

______________________________ ______________________________

Armen Ter-Tachatyan (date)
Chairman of Board, Converse Bank CJSC

______________________________ ______________________________

Juan Pablo Gechidjian (date)
Converse Bank CJSC Board Member

______________________________ ______________________________

Arsen Gamaghelyan (Ter Hovel Archpriest) (date)
Converse Bank CJSC Board Member

______________________________ ______________________________

Jose Luis Persico (date)
Converse Bank CJSC Board Member

______________________________ ______________________________

Artur Hakobyan (date)
Converse Bank CJSC, CEO
Chairman of Executive Management

______________________________ ______________________________

Davit Azatyan (date)
Converse Bank CJSC
Head of Accounting Division/Chief Accountant
Member of Executive Management

______________________________ ______________________________

Gohar Harutyunyan (date)
Converse Bank CJSC
Operations, Services and IT Director
Member of Executive Management

_____________________________ _________________________

Grant Akopian (date)
Converse Bank CJSC Financial Director
Member of Executive Management

____________________________ _________________________

Vahe Dalyan (date)
Converse Bank CJSC Risk Management Director
Member of Executive Management

_____________________________ _________________________

Artur Nahapetyan (date)
Converse Bank CJSC
Business Development Director
Member of Executive Management

_____________________________ _________________________

Grigory Baghdasaryan (date)
Converse Bank CJSC
Retail Business Director
Member of Executive Management

_____________________________ _________________________

Rostom Badalyan (date)
Converse Bank CJSC
Corporate Business Director
Member of Executive Management

SECTION 1. SUMMARY

The Summary is viewed as the preamble to the Prospectus, and the investor's decision on investments in the offered securities is to be based on the whole Prospectus.

The parties responsible for development of the Summary bear civil liability for incomplete or misleading information (including the translation) contained in the Summary, where the latter is incomplete and misleading for review of the remaining sections of the Prospectus.

The investor can obtain the hard copies of the Prospectus and the supporting documents at the Head Office of the Bank, or the soft copies on the Bank's website: **www.conversebank.am**.

1.1 Brief Information about the Bank and Activities of the Bank

1.1.1 Bank Details and Contacts

The full firm name of the Bank is:
in Armenian «Կոնվերս Բանկ» փակ բաժնետիրական ընկերություն
in Russian закрытое акционерное общество "Конверс Банк"
in English "Converse Bank" closed joint-stock company.
The short firm name of the Bank is:
in Armenian «Կոնվերս Բանկ» ՓԲԸ
in Russian ЗАО "Конверс Банк"
in English "Converse Bank" CJSC.
The officially registered address of the Bank is:
26/1 Vazgen Sargsyan, Yerevan, Armenia.
State Registration # 57
Location:
26/1 Vazgen Sargsyan, Yerevan, Armenia.
Contacts:
Tel. (+374 10) 511-200, (+374 10) 511-211
Fax (374 10) 511-212
Email post@conversebank.am,
Website www.conversebank.am:
Country of incorporation: Republic of Armenia
Organizational/legal form: closed joint stock company (registered on 20.12.1993).

For questions relating to investments in bonds, please contact the respective specialists of the Treasury, Dealing and Financial Markets Division of Financial Department of the Bank: (+374 10) 511-206, 511-247.

1.1.2. Foundation and History of the Bank

The Bank has conducted actual business since 1993 and has been active in the RA banking market for 25 years.
The Bank was registered with the Central Bank of Armenian in December 1993, and is the legal successor of North-Armenian joint stock bank.

The Bank was reorganized into Converse Bank closed joint stock company in 1997. The Bank was granted the banking license #97 by the Central Bank of Armenia. Converse Bank closed joint stock company was registered at 26/1, Vazgen Sargsyan, Republic Square, Yerevan, Armenia; and the Central Bank of Armenia (the CBA) was the registering authority.
The trade name and the logotype of the Bank are protected under the RA normative acts and are registered with the RA Patent Office (Trade Name Registration Resolution at 03.06.1999, registration #107913).
The logo of the Bank is:

ConverseBank

The founder and major shareholder of the Bank is Advance Global Investments LLC.

1.1.3. Share Capital of the Bank

The Bank's share capital consists of ordinary and preference shares: shareholders of the Bank are: Advanced Global Investments LLC – ordinary shares 80.94% and 333 preference shares, Haypost Trust Management B.V. – ordinary shares 14.06%, and Armenian Apostolic Church, represented by Mother See of Holy Etchmiadzin – ordinary shares 5%.

To date Converse Bank CJSC has issued and allocated 54,722 (fifty-four thousand seven hundred and twenty-two) ordinary shares, each at AMD 300,000 (three hundred thousand) par value, and 333 (three hundred and thirty-three) convertible preference shares, each at AMD 100 (one hundred) par value, which generate the share capital of the Bank.

1.1.4. Geographic Distribution

As of 31.12.2018, the Bank had 35 branches located in 9 regions of Armenia, Yerevan, and in Stepanakert, the capital of the Republic of Artsakh.

Geographical distribution of branches of the Bank

Regions and cities	Number of branches
Kotayk	6
Lori	1
Syunik	1
Shirak	3
Tavush	2
Armavir	3
Ararat	1
Aragatsotn	1
Gegharkunik	1
Yerevan	15
Stepanakert	1
Total	**35**

The list of branches is presented in Annex 5.

1.1.5. Position in Banking Sector (as of 31.12.2018)

All in all, 17 Armenia-based banks, Converse Bank CJSC among them, have 537 branches located in Armenia and Republic of Artsakh:

- The share of the Bank's branches in the banking system makes 6.52% (35 branches).

As of 31.12.2018, based on the financial disclosures of banks, the Bank had the following position in the Armenian banking sector by financial results:

- 5th place by total liabilities (AMD 242 B or 5.8% market share),
- 6th place by credit investments (AMD 196.3 B or 6.4% market share),
- 6th place by liabilities to customers (AMD 187.2 B or 6.5% market share)
- 7th place by net profit (AMD 4.9 B or 9.1% market share),
- 7th place by assets (AMD 281.1 B or 5.7% market share),
- 9^{h} place by total capital (AMD 39 B or 5.2% market share).

1.1.6. Mission and Strategy of the Bank

The vision of the Bank is to meet the financial needs of our customers and assist them to achieve financial success by offering quality and accessible banking services within the Bank's service network and as well by all available methods of remote banking.

The mission of the Bank is to become the first choice bank in Armenia.

The Bank has adopted the below values when offering services to customers:

- Accessibility
- Affordability
- Novelty
- Awareness
- Support
- Care

The Bank applies Corporate Values:

- Teamwork
- Responsibility
- Delegation of decision making powers
- Integrity
- Training and development
- Inspiration

1.1.7. Business Profile

The main business directions of the Bank will include:

1. Having a retail orientation and focusing on the development of services offered to individuals, at the same time based on the actual results of past years, the mortgage lending is viewed as an essential business direction.
   The growth in the mortgage lending volumes in 2019 will be attributable to the demand generated in the real estate market and 4.5% growth in the construction industry, the demand persisting in the real estate market in 2018, the Government's encouragement policy, and the overall 5.5% growth in the construction industry expected in 2019.

The Bank occupies the 2nd place in the Armenian mortgage loan market and in 2019 intends to place the main focus not only on the portfolio growth but also on the quality portfolio by applying specific mortgage facilities and options, thus preserving and expanding the leading positions in the particular market.

2. In 2019, the Bank will place a specific focus on the areas of lending that will ensure stronger competitive positions.
3. Numerous card promotion measures and actions, expansion of the service list, issuance of cards to target groups on preferential terms and the recorded results of previous years will serve a basis for the Bank to view the payment cards segment as an essential business direction in 2019 and the following years. The Bank intends to further increase the number of payment cards in 2019 and to strengthen its positions in the RA banking system.

Indicator	**31.12.2018**
Number of payment cards of banks	2,024,070
Number of cards of Converse Bank CJSC	225,750
Share of Converse Bank CJSC	11.2%

1.1.8. Strategy of the Bank

The core strategic goals of the Bank include:

Based on the shareholder and customer trust and equilibrium between risk, equity and profit, the Bank determines/projects the below medium-term goals and strategic priorities for 2019-2021:

1. Increase the amount of credit investments in 2019, at the same time place an emphasis on streamlining of lending processes and the loan portfolio quality; within the scope of Corporate Social Responsibility Policy of the Bank, implement target industry projects, and issue energy-efficient and GREEN loans;
2. Achieve 10% market share in retail credit investments;
3. Turn into a leader by the amount of mortgage loans by carrying on the improvement of lending process and terms; expand the cooperation with refinancing organizations to increase the amount of financing under refinancing programs;
4. Rank among top banks by main financial ratios;
5. Render innovative services by applying digital banking technologies;
6. Further develop the card business and preserve leading positions and under the same cooperation with international payment systems to introduce newest cards, instruments and opportunities;
7. Extend the cooperation with international financial organizations to attract long-term resources and;
8. Being adherent to the mission of the Bank to become the first choice bank in Armenia, render exemplary customer service by placing an emphasis on the measures to improve the servicing quality and the business processes in the Bank.

1.1.9. Assets Quality

Asset adequacy: According to audited accounts, the Bank's net profit made AMD 4.9 B, and the ROE (net profit to average equity ratio) made 13.16% in 2018. The total capital to total assets ratio made 13.881%.

Asset quality: The Bank's gross loan portfolio made AMD 200.6 B as of December 31, 2018. Since 2016, the retail and corporate lending terms and processes have been continuously revised to make the credit facilities more competitive. Due to application of the latter and the Bank's market position and the full utilization of the lending potential, the planned growth in lending is quite realistic.

Asset liquidity: The Bank intends to ensure sustainable and differentiated financial sources to provide for fast and cost-saving satisfaction of unexpected liquidity needs. The below table illustrates the CBA-set norms (average ratio of the final month in the reporting period).

Norms	CBA-set ratios	Actual ratio 2018	Actual ratio 2017	Actual ratio 2016
N_2^{1*}	15%	23.69%	35.26%	39.01%
N_2^{2**}	60%	81.83%	102.49%	116.23%

* Min ratio of high liquid assets to total assets

** Min ratio of high liquid assets to demand liabilities

1.2 Risk Relating to Issuer and Bonds

Risk assumption constitutes the integral part and the consequence of financial operations, and the investor has to take into account that investments in bonds involve certain risks related not only to the Issuer's financial status and business results (Issuer risk) but also to the situation in the financial market (market risk).

The adverse changes in the market can cause the Bank's default on obligations or the decline in the bond price or liquidity in the market. As the result of the aforementioned, the investor may lose the invested amount in whole or in part.

The potential investor prior to taking a decision on investments in the bonds has to be cautious and take into account the below stated risks and other information included in the Prospectus, as well as the own practices, goals, financial resources, risk appetite and expected income. Furthermore, the potential investor has to understand that the below listed risks do not cover all risks the Issuer may ever bear. The Issuer reveals only those they consider essential. Presumably there might be additional risks, which the Issuer does not currently consider essential or which are not known at present, and any such risk can have the aforementioned effect and consequence.

Banking is exposed to a variety of financial risks. The major risks include the credit risk, the market risk, the liquidity risk, the inflation or purchasing power risk, the operational risk, the legal risk and the IT risks.

Strengthened competition due to market concentration: The banking industry is exposed to strong competition, which can have an adverse effect on the Issuer's business and financial results. At the point of development of the Prospectus, several banks were compatible with the Issuer, which further strengthened the competition in the banking sector. However, the Issuer is actively involved in all processes and secures its stable position in the industry.

Credit Risk: Banking assumes credit risk relating to the borrower's default on obligations, due whereto the Bank can incur loss. The credit risk is the major risk of the Bank, therefore the Bank keeps the same under its special control. The details of nonperforming loans and assets of the Bank are presented in the attached financial statements and in page 37 of the Prospectus.

When purchasing the bonds of the Bank the investor assumes the potential risk of financial impairment, default of payment of principal and coupons and bankruptcy of the issuer.

Operational Risk: Operational risk is the probability of loss or direct loss arising from inadequate or inaccurate internal processes, human error, systems and external environment, which can have an adverse effect on the equity and profit of the Bank.

The details of banking risks (particularly relating to Converse Bank CJSC), and the measures taken by the Bank to prevent those risks and to minimize their adverse effect are specified in paragraph 3.2 below (page 33).

The investments in bonds offered under the Prospectus involve certain risks.

Market Risk: Market risk is the probability of fluctuation of future cash flows or the real value of financial instruments due to market variables (such as interest rates and exchange rates). Market Risk includes interest rate, price, exchange and equity instrument price risks. To mitigate the adverse impact of the particular risk on the Bank's financial results, the Risk Management Department has established the risk appetite amount and has developed market risk limits, and provides continuous control over their compliance.

Exchange Risk: Exchange risk occurs when issuing bonds with foreign currency. Though the Issuer implements well-balanced and low risk policy for management of the foreign exchange gap of the assets and liabilities, nonetheless the possible essential depreciation of the AMD exchange rate may have an adverse effect on the financial ratios of the Bank. Furthermore, upon USD depreciation, the investor having acquired bonds with USD will make certain loss. When making exchange for investment in bonds, the investor has to also take into account that their income might be less than expected due to unfavorable fluctuation of exchange rate.

Interest Rate Risk: The volatility of interest rates in the Armenian financial market may adversely affect the bond yield and the liquidity rates. Increase of interest rates in the market may also force the Issuer to revise (raise) the bond yield, which will in turn cause the decline or rise of price.

Purchasing Power Risk: The investors have to assume that the actual income receivable by them can be smaller (at the rate of inflation) than the registered coupon yield offered by the Issuer due to inflationary pressures.

Reinvestment Risk: The investors purchasing bonds to be held to maturity have to assume the reinvestment risk; i.e. the risk of inability to reinvest the proceeds from regular coupon payments or the principal payment at least at the same rate of yield.

Liquidity Risk: Liquidity risk may arise from abrupt change in the market situation or the impairment of the Bank's financial status. The Issuer has an action plan for securing the liquidity of bonds (regular coupon payments, competitive yield, listing and permission to trade on regulated market, market maker contracts), nonetheless the Issuer cannot guarantee that the bonds can be sold in the secondary market at any point or at the preferable price.

Geopolitical Risk: The unfavorable changes in geopolitical, regional and in-country political situation may arise negative factors that can affect adversely on the general macroeconomic situation, which in turn can increase the share of nonperforming loans, add the provisioning costs and decrease the Bank's profit.

Regulatory Changes: The Issuer conducts business in one of the regulated industries of the Armenian economy. The introduction of Basel 3 standards from 2018 may have positive or negative impact on the Bank's business and financial results.

Further details on risks relating to the offered bonds are specified in below paragraph 2.1 (page 20).

1.3 Business and Financial Development Trends of the Bank

Converse Bank CJSC is one of the leading banks in Armenia. One of the basic goals of the Bank is the continuous and reliable allocation of capital and as well the timely and quality banking services to its customers. The well-balanced policy of the Bank is the guarantee of stability and good financial-economic results.

Among the priority trends, the Bank considers application of new banking technologies, reliable allocation of resident and nonresident customers' capital and offering and rendering the latter of comprehensive banking services. As a foremost and prospective route for expansion of banking services, the Bank views the remote banking, accessibility of 24/7 service to the best extent possible through both remote banking and the Bank's self-service machines by upgrading the technological base.

The Bank places a special focus on high class and quality customer service and organizes regular trainings for the personnel to improve their performance and to streamline the servicing period. The high professionalism of the personnel allows the Bank to promptly respond to the changes in the market infrastructure, concentrate and use the funds in more perspective areas.

The personnel has increased over the years together with the development and expansion of the business. As of 31.12.2018, the total number of employees amounted to 850 (including those in maternity leave).

Based on the Bank's mission and goals, shareholders stance, strengths and weaknesses, opportunities and threats, the Bank has set the following key objectives for 2019:

- Increase the loan portfolio by implementing target industry and target group projects, as well as increase the share of energy-saving loans in the loan portfolio, and issue of Green loans;

- Provide innovative services using new digital banking technologies, to secure accessibility of new banking products and services on different information platforms;
- Expand cooperation with international financial organizations; provide the portfolio growth for the bonds issued by the Bank;
- Take measures to enhance the Bank's card business in 2019, to result in both the increase of number of cards and the growth in transactions with payment cards, specifically by introducing new products and opportunities;
- Improve the customer service quality through implementation of various target projects and actions and improve the applied customer service methods, standards and general principles.

The below table provides a picture of the Bank's business results.

AMD thousand

NAME	31/12/18 (audited)	31/12/17 (audited)	31/12/16 (audited)
ASSETS	281,119,378	252,735,853	190,993,270
LIABILITIES	242,085,077	216,759,687	158,815,267
EQUITY	39,034,301	35,976,166	32,178,003
Net interest income	11,479,371	9,340,184	7,071,897
Operating income (including net commission fees)	16,152,312	13,513,882	9,971,725
Pre-tax profit/(loss)	6,205,862	4,355,884	1,508,590
After-tax profit/(loss)	4,895,271	3,556,046	1,565,032
ROA, %	1,86%	1.62%	0.94%
ROE, %	13.16%	10.46%	5.84%

1.4 Auditors of the Bank

In 2015-2018, the external auditor of the Bank was Ernst & Young CJSC: address: Office 27, 1 North Avenue; tel. (+374 10) 500-790, fax (+374 10) 500-706, website www.ey.com/am. Hakob Sargsyan is the general director of the company.

The goal of the audit is to obtain sufficient guarantees that the financial statements are free of essential inaccuracies.

No case of refusal from work, re-election or dismissal by the auditor of the Issuer has occurred within 3 years prior to the date of filing of the Prospectus.

1.5 Management Authorities of the Bank

1.5.1. Shareholders of the Bank

Advanced Global Investments LLC – ordinary shares 80.94% and 333 preference shares, Haypost Trust Management B.V. – ordinary shares 14.06%, and Armenian Apostolic Church, represented by Mother See of Holy Etchmiadzin – ordinary shares 5%.

To date Converse Bank CJSC has issued and allocated 54,722 (fifty-four thousand seven hundred and twenty-two) ordinary shares, each at AMD 300,000 (three hundred thousand) par value, and 333 (three hundred and thirty-three) convertible preference shares, each at AMD 100 (one hundred) par value, which generate the share capital of the Bank.

Due to the organizational form of the Bank, the shares of the Bank are not traded on the regulated market. The shares of the Bank are issued termless.

1.5.2. Managerial authorities of the Bank

The Charter of the Bank establishes the following management authorities:

- General Shareholder Meeting (the Meeting),
- Board,
- Executive Authority: CEO and Executive Management.

The Board consists of seven members.

#	Name	Position
1	Armen Ter-Tachatyan	Chairman of Board
2	Juan Pablo Gechidjian	Board Member
3	Arsen Gamaghelyan (Ter Hovel Archpriest)	Board Member
4	Jose Luis Persico	Board Member
5	Daniel Guillermo Simonutti	Board Member
6	Jorge Alberto Del Aguila	Board Member
7	Juan Carlos Ozcoidi	Board Member

The Executive Management consists of eight members.

#	Name	Position
1	Artur Hakobyan	CEO, Chairman of Management Board
2	Davit Azatyan	Head of Accounting Division/Chief Accoutant, member of Executive Management
2	Gohar Harutyunyan	Operations, Services and IT Director, member of Executive Management
3	Grant Akopian	Financial Director, member of Executive Management
4	Vahe Dalyan	Risk Management Director, member of Executive Management
5	Artur Nahapetyan	Business Development Director, member of Executive Management
7	Grigory Baghdasaryan	Retail Business Director, member of Executive Management
8	Rostom Badalyan	Corporate Business Director, member of Executive Management

1.6. Basic Statistical Data of Bonds Offered by the Bank

The bonds issued by Converse Bank CJSC (the Bank) are registered, dematerialized, coupon, medium-term and are to be placed with 3 and more tranche. The placement of the final tranche of bonds will complete no later than within 1 year from approval of the Prospectus by the CBA. The issued bonds are placed and redeemed with USD for USD bonds, and with AMD for AMD bonds. The payment against the coupons of USD and AMD bonds is made with AMD.

Par value per security:	USD 100 (one hundred) AMD 100,000 (one hundred thousand)
Total quantity of issue:	150,000 (one hundred and fifty thousand) with USD, 20,000 (twenty thousand) with AMD
Total value of issue:	USD 15,000,000 (fifteen million), AMD 2,000,000,000 (two billion)

Value per tranche:	To be determined by the Bank Board for each tranche
Quantity per tranche:	Based on total value and par value per tranche
Annual coupon yield:	To be determined by the Bank Board for each tranche
Flotation period:	To be determined by the Bank Board for each tranche
Coupon payment frequency:	To be determined by the Bank Board for each tranche
Form of issue:	Non-underwritten

The final terms of issuance, placement, trading and redemption of bonds are to be determined by the Bank Board for each tranche.
The final terms and conditions for each issue of bonds are filed with the CBA and posted on the Bank's website www.conversebank.am at least 2 (two) days before issuance.
Early redemption of bonds is not planned.
The bonds issued by the Bank are unsecured.
With this issue the Bank intends to expand and to diversify the base of potential customers, to introduce the potential investors to the Bank's investment instruments on the Armenia Securities Exchange OJSC trading floor, and to disseminate the information about the Bank's credit risk to the broadest range of investors possible. The cash flows from placement of bonds will be an additional resource to expand the volumes of loans issued by the Bank.

1.7. Details of Bond Offering

1.7.1. Outline of Bond Issuance Process

The Issuer's bonds will not be offered for subscription.
The starting and end dates of each tranche are to be determined by the Board.
To acquire bonds, the investors have to complete in due form the respective buy orders (legal entities based on Annex 1, and individuals based on Annex 2) and file the latter with the Bank, make the respective payment, whereby they will confirm the acceptance of the bond issuance terms.
The bond buyer has to have a USD account (for USD bonds) and an AMD account (irrespective of the currency of the issued bond to be purchased) with any bank, and securities account with any Account Operator.
The investor in bonds can earn income from:

- Interest on bonds,
- Capital gain.

The yield on bonds issued by the Bank is taxable for profit tax (for legal entities) and income tax (for individuals) in compliance with the RA Taxation Code.

1.7.2. Payment procedure

The buyers of the bonds have to make the payments on the day of submission to the Bank of the buy order in due form (whereby they will confirm the acceptance of terms of issue), no later than 16:30, through cash payment or transfer onto the special transit accounts opened with the Bank #1930043129906501 (for USD bonds) and #1930043123398600 (for AMD bonds). The amount payable for the bonds is calculated by the below formula (page 17), by multiplying the price per bond at the particular date of placement by the number of purchased bonds; furthermore, where the buy order was placed and the respective amount was paid by 16:30 of the particular day, the price of the bond is determined at the particular date. The amount of payment for the buy order placed and/or effected after 16:30 is determined at the price of the bond at the following business day.

1.7.3. Bond Price Calculation Formula

$$DP = \frac{C}{f}\sum_{t=1}^{N}\frac{1}{\left(1+\frac{y}{100*f}\right)^{t-1+\tau}} + \frac{100}{\left(1+\frac{y}{100*f}\right)^{N-1+\tau}}$$

where

$$\tau = \frac{DSN}{DCC}$$

DP is the price of bond (is rounded after the decimal point by 4 digit accuracy, based on the arithmetical rounding rules),
DSN is the number of days left from the day of deal through the subsequent payment of coupon, upon respective conditionality
DCC is the number of days from the coupon payment day preceding the deal through the coupon payment succeeding the deal, upon respective conditionality
f is the number of coupons paid in 1 year, frequency
N is the number of coupon payments left at the point of calculation,
C is the annual coupon against 100 unit par value,
y is the yield to maturity.

The value per tranche is determined by the Board based on the market demand.
The Bank undertakes to publish the bond price of each issue throughout the placement on its website: www.conversebank.am.

The coupon payable for the bond is calculated with the periodicity established by the Board per issue, on the respective day of each n^{th} month following the starting day of placement.
The coupon payable for the bond is calculated by the following formula.

$$AI = FV \times \frac{C}{k} \times \frac{DCS}{DCC}$$

where
AI is the accumulated coupon income,
FV is the face value per bond,
C is the annual nominal interest rate of coupon,
k is the number of coupons payable annually, frequency (upon semiannual payment of coupons k=2).
The conditionality of calculation of days for the Issuer's bonds is deemed Actual/Actual; furthermore:
DCS is the number of days between the starting date of coupon redemption/coupon accumulation preceding the day of the deal and the day of the deal, upon the respective conditionality [D2M2Y2-D1M1Y1],
DCC is the number of days in coupon cycle upon the respective conditionality [D3M3Y3-D1M1Y1],

D1M1Y1 is the date of coupon redemption/start of coupon accumulation preceding the date of the deal,
D2M2Y2 is the date of the deal,
D3M3Y3 is the date of coupon redemption/par value redemption succeeding the date of the deal.
The annual coupon interest rate payable for each tranche is to be determined by the Board.

1.8. Maintenance of Bond Registry

The Bond Register will be maintained by the Central Depository of Armenia OJSC (5th floor, 26/1 Vazgen Sargsyan, 0010 Yerevan, Armenia), tel. (+374) 60 615555, in compliance with the rules and regulations of the Central Depository of Armenia OJSC.

1.9. Other Essential Information

Under the RA Law on GUARANTEE OF REMUNERATION OF BANK DEPOSITS OF PHYSICAL ENTITIES, Article 2.1(c), the funds attracted with registered securities issued by the Bank are deemed a bank deposit. Therefore, the investments of individuals, including the sole proprietors in the registered bonds issued by the Bank, as well as the earned interests are guaranteed to the same amount and in the same order as the deposits.
The Bank pays the coupon sum to the bondholders on the coupon calculation day. Where the coupon calculation day is a non-business day, the payment day is deemed the first business day following the particular day. The coupon payments are made with AMD. For USD bonds, the coupon is calculated at the average USD/AMD market exchange rate published by the CBA on the day preceding the coupon calculation.

1.10. Brief Financial Info

The annual and quarterly financial statements and the financial ratio calculation formulae are presented in Annexes 6 and 7.

AMD thousand

Indicator	31/12/18 (audited)	31/12/17 (audited)	31/12/16 (audited)
Net profit after profit tax deduction	4,895,271	3,556,046	1,565,032
Average equity	37,206,903	34,009,567	26,807,180
ROE, %	13.16%	10.46%	5.84%
Net profit after profit tax deduction	4,895,271	3,556,046	1,565,032
Average total assets	262,700,958	219,555,541	167,144,815
ROA, %	1.86%	1.62%	0.94%
Net profit after profit tax deduction	4,895,271	3,556,046	1,565,032
Operating income	16,152,312	13,513,882	9,971,725
Net profit margin (NPM), %	30.31%	26.31%	15.69%
Operating income	16,152,312	13,513,882	9,971,725
Average total assets	262,700,958	219,555,541	167,144,815
Assets utilization ratio (AU), %	6.15%	6.16%	5.97%
Average total assets	262,700,958	219,555,541	167,144,815
Average equity	37,206,903	34,009,567	26,807,180
Equity multiplier (EM)	7.06	6.46	6.24
Net interest income	11,479,371	9,340,184	7,071,898

Average earning assets	210,692,285	164,028,097	115,653,469
Net interest margin (NIM)	0.05	0.06	0.06
Interest income	21,114,678	17,624,253	13,859,656
Average earning assets	210,692,285	164,028,097	115,653,469
Yield on earning assets	0.10	0.11	0.12
Interest expense	9,635,307	8,284,069	6,787,759
Liabilities involving interest expense	239,394,745	213,602,196	156,653,307
Costs of liabilities involving interest expense	0.04	0.04	0.04
Net profit after profit tax deduction	4,895,271	3,556,046	1,565,032
Average weighted number of shares	54,722	54,722	31,074
Earnings per share (EPS)	89.34	64.86	50.36
Spread	0.06	0.07	0.08

NOTICE TO INVESTOR

THE SUMMARY IS TO BE VIEWED AS THE PREAMBLE TO THE PROSPECTUS. THE INVESTOR'S DECISION ON INVESTMENTS IN THE OFFERED SECURITIES IS TO BE BASED ON THE WHOLE PROSPECTUS.

THE PARTY RESPONSIBLE FOR DEVELOPMENT OF THE SUMMARY BEARS CIVIL LIABILITY FOR INCOMPLETE OR MISLEADING INFORMATION (INCLUDING THE TRANSLATION) CONTAINED IN THE SUMMARY, WHERE THE LATTER IS INCOMPLETE AND MISLEADING FOR REVIEW OF THE REMAINING SECTIONS OF THE PROSPECTUS.

SECTION 3. INFORMATION ABOUT THE BANK

3.1. Risk Factors

The below table illustrates the gross loan portfolio analysis by security.

	As of 31/12/2018: AMD thousand (audited)	*As of 31/12/2017: AMD thousand (audited)*	*As of 31/12/2016: AMD thousand (audited)*
Real estate-based loans	**110,812,306**	**82,040,110**	**58,061,771**
Gold-based loans	**19,187,836**	**15,950,465**	**13,485,219**
Loans backed with company guarantees	**16,179,084**	**6,383,684**	**5,895,609**
Car-based loans	**3,245,056**	**2,320,430**	**1,977,955**
Cash-covered loans	**19,562,679**	**35,148,213**	**27,221,417**
Loans backed with inventory	**3,467,548**	**676,734**	**896,863**
Loans backed with equipment	**1,447,721**	**3,300,657**	**1,485,529**
Other securities	**4,643,581**	**5,541,894**	**4,513,789**
Other collateral	**9,816,041**	**7,230,345**	**5,155,737**
Unsecured loans	**12,319,875**	**11,438,319**	**7,885,131**
(Total gross loans and borrowings)	**200,681,727**	**170,030,851**	**123,579,020**

The above listed values are the book values of loans, and do not necessarily reflect the real value of collateral. The estimated market value of collateral is based on the evaluation of collateral at the date of issuance of loans. In general, they are not updated until the estimation of loans as individually impaired.
The real value of collateral for individually impaired loans total AMD 6,998,840 K as of December 31, 2018.

Non impaired, non overdue loans and borrowings: The below table illustrates the quality of loans and borrowings by classes.

As of December 31, 2018 AMD ,000	**Non overdue and non impaired**			**Overdue**		**Total**
	High rating	**Standard rating**	**Low rating**	**But not individually impaired**	**Individually impaired**	
Loans and borrowings to customers	19,562,679	171,724,054	1,590,277	1,166,314	6,638,403	200,681,727

Overdue, but not individually impaired loans: The analysis of the overdue but not individually impaired loans and borrowings is illustrated in the below table.

As of 31/12/2018: AMD ,000					
	Up to 30 days	*31-60 days*	*61-90 days*	*Above 90 days*	*Total*
Loans and borrowings to customers					
Industry	0	0	0	0	**0**
Agriculture	0	0	0	19,865	**19,865**

Construction	0	0	0	37,832	**37,832**
Trade	0	1,937	0	24,954	**26,891**
Transport and communications	0	0	0	0	**0**
Consumer loans to individuals	165,681	114,044	78,818	452,409	**810,952**
Mortgage loans	42,049	6,454	19,591	173,019	**241,113**
Services	0	19,597	0	0	**19,597**
Other	3,296	0	0	6,768	**10,064**
Total	**211,026**	**142,032**	**98,409**	**714,847**	**1,166,314**

At the same time the specific features of the Bank's credit risk are as follows:
Loan reserve / Total loans = 2.19%
Nonperforming loans / Total loans = 3.89%
Loan reserve / Total capital = 11.27%
Earnings coverage ratio (net operating income + provisioning costs) / Net loss from loans = 345.8%

The Bank estimates the liquidity ratios based on the requirements of the CBA.
As of 31.12.2018, the liquidity ratios were:

Liquidity Ratios	**31/12/2018, %**	**31/12/2017, %**
N21 – Total liquidity (quick assets/total assets)	23.69	35.26
N22 – Current liquidity (quick assets/demand liabilities)	81.83	102.49

3.3 Business Profile

Characteristics of funds allocated by the Bank in recent years.

Direction of allocation	**31/12/18 (audited)**		**31/12/17 (audited)**		**31/12/16 (audited)**	
	amount (AMD ,000)	**average %**	**amount (AMD ,000)**	**average %**	**amount (AMD ,000)**	**average %**
Loans, including	200,681,727	10.09%	170,030,851	10.86%	123,579,020	11.74%
- business	110,959,901	8.66%	97,844,810	9.13%	71,198,846	9.45%
- consumer	53,934,132	13.04%	42,839,101	15.15%	31,088,469	17.59%
- mortgage	35,030,730	10.10%	28,612,812	10.36%	20,706,198	11.15%
- auto	756,964	8.80%	298,382	11.82%	339,898	15.25%
- other			435,747	11.29%	245,609	14.22%
With banks and other financial institutions	5,225,142	0.93%	10,546,355	4.6%	2,320,882	0%
In RA government securities	19,931,615	8.35%	22,707,948	8.96%	13,273,481	9.24%

Characteristics of funds attracted by the Bank in recent years.

Direction of attraction	31/12/18 (audited)		31/12/17 (audited)		31/12/16 (audited)	
	amount (AMD ,000)	average %	amount (AMD ,000)	average %	amount (AMD ,000)	average %
Deposits, including:	187,214,116	4.05%	173,914,157	4.21%	139,680,217	4.70%
- time	116,545,879	5.93%	106,572,818	6.30%	90,840,564	7.20%
- demand	70,668,237	0.95%	67,341,339	0.91%	48,839,653	0.78%
From banks and other financial institutions	29,647,783	6.20%	27,832,817	5.50%	9,374,272	8.46%

The Bank offers clearing/settlement and other banking services to the customers, the indicators and dynamics whereof are illustrated below.

	As of 31/12/18	As of 31/12/17	As of 31/12/16
Number of corporate accountholders	6,681	7,672	6,556
Number of individual accountholders	150,390	117,701	108,096
Number of current accounts	281,987	305,976	257,772
Number of time deposits	11,449	11,320	10,349
Outgoing transfers by legal entities (AMD million)	152,499	176,565	133,785
Incoming transfers for legal entities (AMD million)	146,087	151,579	108, 020
Outgoing transfers by individuals (SWIFT, Western Union, Migom, etc.) (AMD million)	30,122	39,823	22,774
Incoming transfers for individuals (SWIFT, Western Union, Migom, etc.) (AMD million)	59,226	76,618	59,119

In the recent 3 years Converse Bank's position among 20 banks is illustrated below, by specific directions.

Position by directions	**2018 (audited)**	**2017 (audited)**	**2016 (audited)**
Assets	7th	6th	9th
Equity	9th	10th	12th
Loans	6th	6th	9th
Liabilities	5th	6th	9th

Profitability ratios	**2018**	**2017**	**2016**
ROE	13.16%	10.66%	5.84%
ROA	1.86%	1.65%	0.94%

The share of Converse Bank CJSC in the RA banking industry is illustrated below.

AMD ,000

		Assets	**Credit investments**	**Liabilities**	**Total capital**
As of 31/12/2018 (audited)	**Industry**	4,909,439,649	3,049,547,729	4,164,286,402	745,153,247
	BANK	281,119,378	196,282,332	242,085,077	39,034,301
	%	5.73%	6.44%	5.81%	5.24%
As of 31/12/2017 (audited)	**Industry**	4,328,516,405	2,658,003,424	3,634,437,994	694,078,411
	BANK	252,735,853	165,167,500	216,759,687	35,976,166
	%	5,84%	6,21%	5.96%	5,18%

As of 31/12/2016 (audited)	**Industry**	4,019,621,599	2,528,952,222	3,359,196,520	660,425,139
	BANK	190,993,270	119,024,824	158,815,267	32,178,003
	%	4.75%	4.71%	4.73%	4.87%

3.10 Assets and Liabilities, Financial Status, Profit and Loss of the Bank

Financial Statements of Converse Bank CJSC for all years were developed based on the International Financial Reporting Standards.
The annual financial statements verified by the Internal Audit and the external audit reports are presented in Annex 7 hereto.
The below table illustrates the financial results and the annual ROA of Converse Bank CJSC.

,000 AMD

NAME	31/12/18 (audited)	31/12/17 (audited)	31/12/16 (audited)
ASSETS	281,119,378	252,735,853	190,993,270
LIABILITIES	242,085,077	216,759,687	158,815,267
EQUITY	39,034,301	35,976,166	32,178,003
Net interest income	11,479,371	9,340,184	7,071,898
Operating income (including net commission fees)	16,152,312	13,513,882	9,971,725
Pre-tax profit/(loss)	6,205,862	4,355,884	1,508,590
After-tax profit/(loss)	4,895,271	3,556,046	1,565,032
ROA (%)	1,86%	1.62%	0.94%
ROE (%)	13.16%	10.46%	5.84%

Financial Activity of the Bank

A. Structure of liabilities (resources) of the Bank are described below.

The equity and attracted funds serve a major source of resources needed for the regular business of financial mediators, including the banks. The Bank has strengthened its resource base in recent years for the purpose of lending and other allocation of funds.

	31/12/18 (audited)	**Share %**	**31/12/17 (audited)**	**Share %**	**31/12/16 (audited)**	**Share %**
Resources, total Including:	281,119,378	100	252,735,853	100	190,993,270	100
Equity	39,034,301	13.89	35,976,166	14.23	32,178,003	16.85
Liabilities, of which:	242,085,077	86.11	216,759,687	85.77	158,815,267	83.15
Funds attracted from customers	187,214,116	66.60	173,914,157	68.81	139,680,217	73.13
Liabilities to banks and other financial organizations	29,647,783	10.55	27,832,817	11.01	9,374,272	4.91

Other liabilities	1,482,613	0.53	1,336,873	0.53	841,484	0.44

The below table illustrates the level of performance of the Bank liabilities as of 31.12.2017 and 31.12.2018. The actual level of normative indicators set by the Central Bank of Armenia prove that the Bank's capability to perform the liabilities have remained on a high level.

Norms	Actual ratio estimated for the Bank 31/12/18	Actual ratio estimated for the Bank 31/12/17	Allowed ratio set by the CBA
N1 Min ratio of total capital to risk-weighted assets	14.34%	16.96%	12.00%
N21 Min ratio of liquid assets in all currencies to total assets in all currencies	23.69%	35.26%	15.00%
N22 Min ratio of liquid assets in all currencies to total demand deposits in all currencies	81.83%	102.49%	60.00%

B. Structure of Bank's equity in 2016-2018

Capital	31/12/18 (audited)	31/12/17 (audited)	31/12/16 (audited)
Share capital	16,416,633	16,416,633	16,416,633
Additional paid-in capital	63,233	63,233	63,233
Reserves:	6,607,610	6,595,921	5,724,323
Main reserve	1,898,319	1,243,064	1,005,996
Revaluation reserve	4,709,291	5,352,857	4,718,327
Accumulated profit/loss	15,946,825	12,900,379	9,973,814
Total capital	39,034,301	35,976,166	32,178,003

THE INVESTOR, BY REVIEWING THIS PROGRAM PROSPECTUS, HAS TO INDEPENDENTLY ASSESS THE RISK OF THEIR INVESTMENT IN PARTICULAR SECURITIES, PRIOR TO DECISION ON ACQUISITION.

ANNEX 7 Financial Statements

Converse Bank CJSC

Consolidated financial statements

Year ended 31 December 2018
together with independent auditor's report

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Independent auditor's report

Consolidated financial statements

Notes to the consolidated financial statements

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Independent auditor's report

To the Board and Shareholders of
Converse Bank Closed Joint-Stock Company

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed it
Allowance for impairment of loans and advances to customers	
Allowance for impairment of loans and advances to customers is a key audit matter due to both the significance of loans and advances to customers and the complexity and judgments related to the estimation of expected credit losses ("ECL") under newly adopted IFRS 9 *Financial Instruments* ("IFRS 9"). The calculation of ECL on portfolio basis involves estimation techniques that use complex statistical modelling and expert judgment. These techniques are used to determine probability of default, projected exposure at default and loss arising at default, based on available historical data, which is adjusted for forward looking information, including forecast of macroeconomic parameters. The calculation of ECL for significant credit-impaired financial assets on an individual basis requires assessment of estimated future cash flows from the realization of collateral and other sources. The use of different modelling techniques and assumptions could produce significantly different estimates of ECL. This could have material effect on the financial results of the Group. Information on the allowance for impairment of loans and advances to customers is included in Note 9 *Loans and advances to customers* and Note 30 *Risk management*.	We focused our audit on the following: ▶ Evaluation of credit risk models and assumptions used to determine ECL on portfolio basis; ▶ Testing the ECL for significant credit-impaired loans and advances to customers on individual basis. To test allowance calculated on a portfolio basis, we evaluated underlying statistical models, key inputs and assumptions used and forward looking information incorporated in the calculation of ECL, including forecast of macroeconomic parameters. We tested key statistical data underlying credit risk factors calculation, such as overdue days of loans, statistics of recoveries of loans and advances to customers after default date and behavior of defaulted exposures from initial recognition date to default date. For significant credit-impaired exposures, we tested calculation of estimated future cash flows from realization of collateral and other sources. We also performed procedures regarding the consolidated financial statements disclosures of the Group's exposure to credit risk.

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Board for the consolidated financial statements

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

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

The Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

CJSC Ernst & Young
Yerevan, Armenia

Partner (Assurance) Sergei Taskaev

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

30 April 2019

Consolidated statement of financial position as of 31 December 2018

(thousands of Armenian drams)

	Notes	*2018*	*2017*
Assets			
Cash and cash equivalents	6	40,470,858	39,842,049
Trading securities	7	1,160,345	787,330
Amounts due from banks	8	5,212,487	10,546,355
Loans and advances to customers	9	196,282,332	165,167,500
Investment securities	10	18,356,454	23,158,358
Investment securities pledged under repurchase agreements	10	8,092,013	3,056,113
Property, plant and equipment	11	6,739,038	6,115,287
Intangible assets	12	296,331	226,538
Repossessed assets	13	1,977,614	1,832,119
Other assets	14	2,531,906	2,004,204
Total assets		**281,119,378**	**252,735,853**
Liabilities			
Amounts due to banks	15	13,963,370	15,173,467
Derivative financial liabilities	16	26,583	68,857
Amounts due to customers	17	187,214,116	173,914,157
Debt securities issued	18	16,653,444	5,931,969
Current income tax liabilities		199,430	609,855
Deferred income tax liabilities	19	938,233	1,210,763
Other borrowed funds	20	15,684,413	12,659,350
Subordinated debt	21	5,852,819	5,854,396
Provisions on commitments and contingencies	22	70,056	-
Other liabilities	14	1,482,613	1,336,873
Total liabilities		**242,085,077**	**216,759,687**
Equity	23		
Share capital		16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		1,898,319	1,243,064
Revaluation surplus for land and buildings		3,057,881	3,181,072
Revaluation reserve for financial assets at FVOCI / available-for-sale financial assets		1,651,410	2,171,785
Retained earnings		15,946,825	12,900,379
Total equity		**39,034,301**	**35,976,166**
Total equity and liabilities		**281,119,378**	**252,735,853**

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

Arthur Hakobyan — Chief Executive Officer – Chairman of Executive Management

Davit Azatyan — Chief Accountant

30 April 2019

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

Consolidated statement of profit and loss

for the year ended 31 December 2018

(thousands of Armenian drams)

	Note	*2018*	*2017*
Interest revenue calculated using effective interest rate	24	21,013,954	17,560,946
Other interest revenue	24	100,724	63,307
Interest expense	24	(9,635,307)	(8,284,069)
Net interest income	24	**11,479,371**	**9,340,184**
Credit loss expense	25	(948,002)	(1,212,874)
Net interest income after credit loss expense		**10,531,369**	**8,127,310**
Fee and commission income	26	2,713,169	2,433,145
Fee and commission expense	26	(871,738)	(752,304)
Net trading income	27	1,539,144	1,279,654
Net loss from foreign currency translation		(313,262)	(1,128)
Gains less losses from investment securities available for sale		–	304,220
Gains less losses from investment securities measured at fair value through other comprehensive income		884,812	–
Other income	28	720,816	910,112
Non-interest income		**4,672,941**	**4,173,699**
Personnel expenses	29	(4,906,867)	(4,298,789)
Depreciation of property and equipment	11	(601,397)	(731,100)
Amortization of intangible assets	12	(61,780)	(41,719)
Administrative and other operating expenses	29	(3,392,533)	(2,815,439)
Other impairment and provisions	13, 25	(35,871)	(58,078)
Non-interest expense		**(8,998,448)**	**(7,945,125)**
Profit before income tax expense		**6,205,862**	**4,355,884**
Income tax expense	19	(1,310,591)	(799,838)
Profit for the year		**4,895,271**	**3,556,046**

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

Consolidated statement of comprehensive income

for the year ended 31 December 2018

(thousands of Armenian drams)

	Note	*2018*	*2017*
Profit for the year		**4,895,271**	**3,556,046**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Gains on equity instruments at fair value through other comprehensive income		138,140	–
Income tax effect		(27,628)	–
Net other comprehensive income not to be reclassified subsequently to profit or loss		**110,512**	**–**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised losses on investment securities at FVOCI		(6,368)	–
Realised gains on investment securities at FVOCI transferred to profit or loss		(884,812)	–
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(9,375)	
Income tax effect		180,111	–
Unrealised gains on investment securities available-for-sale		–	1,312,450
Realised gains on investment securities available-for-sale transferred to profit or loss		–	(304,220)
Income tax effect	19	–	(201,646)
Net other comprehensive (loss)/income to be reclassified subsequently to profit or loss		**(720,444)**	**806,584**
Other comprehensive (loss)/income for the year, net of tax		**(609,932)**	**806,584**
Total comprehensive income for the year		**4,285,339**	**4,362,630**

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

Consolidated statement of changes in equity

for the year ended 31 December 2018

(thousands of Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve for securities at fair value through OCI/ available-for-sale financial assets*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2017	**16,416,633**	**63,233**	**1,005,996**	**1,365,201**	**3,353,126**	**9,973,814**	**32,178,003**
Issue of share capital	–	–	237,068	–	–	(237,068)	**–**
Dividends to shareholders	–	–	–	–	–	(564,467)	**(564,467)**
Transactions with owners	**–**	**–**	**237,068**	**–**	**–**	**(801,535)**	**(564,467)**
Profit for the year	–	–	–	–	–	3,556,046	**3,556,046**
Other comprehensive income for the year	–	–	–	806,584	–	–	**806,584**
Total comprehensive income for the year	**–**	**–**	**–**	**806,584**	**–**	**3,556,046**	**4,362,630**
Depreciation of revaluation reserve	–	–	–	–	(172,054)	172,054	**–**
Balance as at 31 December 2017	**16,416,633**	**63,233**	**1,243,064**	**2,171,785**	**3,181,072**	**12,900,379**	**35,976,166**
Impact of adopting IFRS 9	–	–	–	89,557	–	(746,411)	**(656,854)**
Restated opening balance under IFRS 9	**16,416,633**	**63,233**	**1,243,064**	**2,261,342**	**3,181,072**	**12,153,968**	**35,319,312**
Distribution to general reserve	–	–	655,255	–	–	(655,255)	**–**
Dividends to shareholders	–	–	–	–	–	(570,350)	**(570,350)**
Transactions with owners	**–**	**–**	**655,255**	**–**	**–**	**(1,225,605)**	**(570,350)**
Profit for the year	–	–	–	–	–	4,895,271	**4,895,271**
Other comprehensive income for the year	–	–	–	(609,932)	–	–	**(609,932)**
Total comprehensive income for the year	**–**	**–**	**–**	**(609,932)**	**–**	**4,895,271**	**4,285,339**
Depreciation of revaluation reserve	–	–	–	–	(123,191)	123,191	**–**
Balance as at 31 December 2018	**16,416,633**	**63,233**	**1,898,319**	**1,651,410**	**3,057,881**	**15,946,825**	**39,034,301**

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

Consolidated statement of cash flows

for the year ended 31 December 2018

(thousands of Armenian drams)

	Note	2018	2017
Cash flows from operating activities			
Interest received		21,169,444	16,627,930
Interest paid		(8,547,527)	(7,984,091)
Fees and commissions received		2,713,169	2,433,145
Fees and commissions paid		(871,738)	(752,304)
Net trading income received		1,519,121	1,233,793
Other income received		720,766	910,112
Personnel expenses paid		(4,779,790)	(3,892,063)
Administrative and other operating expenses paid		(3,464,277)	(2,813,989)
Cash flows from operating activities before changes in operating assets and liabilities		**8,459,168**	**5,762,533**
Net (increase)/decrease in operating assets			
Trading securities		(279,974)	(556,636)
Amounts due from banks		5,317,501	(8,296,629)
Loans and advances to customers		(30,751,558)	(48,262,440)
Repossessed assets		475,452	584,633
Other assets		(483,322)	(1,182,528)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		545,372	15,513,185
Amounts due to customers		9,515,901	35,343,011
Derivative financial liabilities		(43,252)	37,678
Other liabilities		18,713	89,140
Net cash used in operating activities before income tax		**(7,225,999)**	**(968,053)**
Income tax paid		(1,676,849)	(469,751)
Net cash used in operating activities		**(8,902,848)**	**(1,437,804)**
Cash flows from investing activities			
Purchase of investment securities at FVOCI / available for sale		(10,082,445)	(10,955,217)
Proceeds from sale and redemption of investment securities at FVOCI / available for sale		10,774,528	1,633,685
Purchase of securities at amortised cost / held-to-maturity investments		(2,671,163)	(346,349)
Proceeds from repayment of securities at amortised cost / held-to-maturity investments		345,964	–
Purchase of property and equipment		(1,225,342)	(738,006)
Proceeds from sale of property and equipment		6,380	274,936
Purchase of intangible assets		(131,572)	(128,455)
Net cash used in investing activities		**(2,983,650)**	**(10,259,406)**
Cash flows from financing activities			
Proceeds from bonds issued	37	19,904,690	5,848,861
Redemption of bonds issued	37	(9,215,087)	–
Proceeds from other borrowed funds	37	6,520,883	6,240,921
Repayment of other borrowed funds	37	(3,460,357)	(2,703,308)
Repayment of subordinated debt	37	–	(1,453,077)
Dividends paid to shareholders		(570,350)	(564,467)
Net cash from financing activities		**13,179,779**	**7,368,930**
Net increase/(decrease) in cash and cash equivalents		**1,293,281**	**(4,328,280)**
Cash and cash equivalents at the beginning of the year		39,842,049	44,751,939
Effect of exchange rates changes on cash and cash equivalents		(658,628)	(581,610)
Effect of expected credit losses on cash and cash equivalents		(5,844)	–
Cash and cash equivalents at the end of the year	6	**40,470,858**	**39,842,049**

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

(thousands of Armenian drams)

1. Principal activities

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

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

The Bank's main office is in Yerevan and its 34 branches are located in Yerevan and in different regions, and 1 branch is located in NKR.

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

As of 31 December, the following shareholders of the Bank are:

Shareholder	***2018, %***	***2017, %***
Advanced Global Investments LLC	80.94	80.94
Haypost Trust Management BV	14.06	14.06
Mother See of Holy Etchmiadzin	5.00	5.00
Total	**100.0**	**100.0**

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

Armenian business environment

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

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

(thousands of Armenian drams)

2. Basis of preparation (continued)

Reclassifications

Following adoption of IFRS 9 (Note 3), the Group updated presentation of consolidated statement of profit or loss to present impairment losses determined in accordance with IFRS 9 as a single line item. Accordingly, the following reclassifications of impairment losses and interest income have been made to 2017 statement of comprehensive income to conform to the 2018 presentation.

	As previously reported	***Reclassification***	***As adjusted***
Allowance for loan impairment	(1,146,313)	1,146,313	−
Other impairment and provisions	(124,639)	66,561	(58,078)
Credit loss expense	−	(1,212,874)	(1,212,874)
Interest income	17,624,253	(17,624,253)	−
Interest revenue calculated using effective interest rate	−	17,560,946	17,560,946
Other interest revenue	−	63,307	63,307

3. Summary of accounting policies

Changes in accounting policies

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

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

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

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

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

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

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

(b) Impairment

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Group's impairment method are disclosed in Note 30. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

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

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement			*IFRS 9*		
Financial assets	***Category***	***Amount***	***Reclassification***	***ECL***	***Amount***	***Category***
Cash and cash equivalents	L&R[1]	39,842,049	–	(6,004)	39,836,045	Amortised cost
Amounts due from banks	L&R[1]	10,546,355	–	(5,979)	10,540,376	Amortised cost
Loans and advances to customers	L&R[1]	165,167,500	–	(739,288)	164,428,212	Amortised cost
From: Investment securities available for sale, including pledged under repo agreements	AFS[3]	25,868,331	(25,868,331)	–	–	N/A
To: Trading securities		787,330	579,582	–	1,366,912	FVPL
To: Investment securities, including pledged under repurchase agreements – debt securities at FVOCI		–	25,288,749	–	25,288,749	FVOCI
From: Held-to-maturity investments	HTM[2]	346,140	(346,140)	–	–	N/A
To: Investment securities – debt securities at amortised cost		–	346,140	(2,064)	344,076	Amortised cost
Other financial assets		778,482	–	–	778,482	Amortised cost
Total assets		**243,336,187**	**–**	**(753,335)**	**242,582,852**	
Non-financial liabilities		–	–	–	–	
Deferred tax liabilities		1,210,763	–	(164,214)	1,046,549	
Provisions		–	–	67,733	67,733	
Total liabilities		**1,210,763**	**–**	**(96,481)**	**1,114,282**	

[1] L&R: Loans and receivables.

[2] HTM: Held-to-maturity.

[3] AFS: Available-for-sale.

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

	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	**2,171,785**
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	284,213
Recognition of revaluation of AFS securities reclassed to trading securities	(172,267)
Deferred tax in relation to the above	(22,389)
Restated opening balance under IFRS 9 (1 January 2018)	**2,261,342**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**12,900,379**
Recognition of IFRS 9 ECLs including those measured at FVOCI	(1,105,281)
Recognition of revaluation of AFS securities reclassed to trading securities	172,267
Deferred tax in relation to the above	186,603
Restated opening balance under IFRS 9 (1 January 2018)	**12,153,968**
Total change in equity due to adopting IFRS 9	**(656,854)**

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

	Loan loss allowance/ provision under IAS 39 at 31 December 2017	***Remeasurement***	***ECL under IFRS 9 at 1 January 2018***
Impairment allowance for			
Loans and receivables at amortised cost	4,906,772	751,271	5,658,043
Held to maturity securities per IAS 39 / investment securities at amortised cost under IFRS 9	−	2,064	2,064
Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9	−	284,213	284,213
Financial guarantees	−	38,450	38,450
Letters of credit	−	680	680
Undrawn loan commitments	−	28,603	28,603
	4,906,772	**1,105,281**	**6,012,053**

IFRS 15 Revenue from Contracts with Customers

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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

Basis of consolidation

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Fair value measurement

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

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

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

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

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

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

From 1 January 2018, the Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

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

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

Debt instruments at FVOCI

From 1 January 2018, the Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

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

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

Equity instruments at FVOCI

From 1 January 2018, upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

Financial guarantees, letters of credit and undrawn loan commitments

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

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

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

Performance guarantees

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

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

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the consolidated statement of financial position. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

Repurchase and reverse repurchase agreements and securities lending

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

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Derivative financial instruments

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

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

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

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Leases

Finance – Group as lessee

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

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

Finance – Group as lessor

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Group as lessee

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

Operating – Group as lessor

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

Offsetting of financial instruments

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

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

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

Impairment of financial assets under IAS 39

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

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

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in consolidated statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Impairment of financial assets under IAS 39 (continued)

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

Information on impairment assessment under IFRS 9 is presented in Note 30.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

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

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

Taxation

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Taxation (continued)

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

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

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

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

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

Property and equipment

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

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

	Useful life (years)	***Rate (%)***
Buildings	20	5
Computers and communication equipment	1	100
Vehicles	8	12.5
Equipment	8	12.5
Other fixed assets	8	12.5

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

Repairs and maintenance are charged to the consolidated statement of comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

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

Intangible assets

Intangible assets include computer software, licenses and other.

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

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

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

Grants

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

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

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

Provisions

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

Equity

Share capital

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Share capital (continued)

Share premium

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

Retained earnings

Includes retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for investment securities

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

Segment reporting

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar revenue and expense

From 1 January 2018, the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

Fee and commission income

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

Dividend income

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

Foreign currency translation

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

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

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

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

(thousands of Armenian drams)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Group plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value. The Group is in the process of quantifying the effect of adoption of IFRS 16.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

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

4. Significant accounting judgments and estimates

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

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

Revaluation of land and buildings

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

(thousands of Armenian drams)

4. Significant accounting judgments and estimates (continued)

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 31).

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

5. Segment information

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

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Trading and Investment banking	Treasury and finance, investment banking, leasing and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a profit before income tax basis and are allocated to operating segments.

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

(thousands of Armenian drams)

5. Segment information (continued)

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

2018	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	10,116,816	8,062,940	2,834,198	**21,013,954**
Other interest revenue	101	7,022	93,601	**100,724**
Interest expense	(3,206,393)	(4,827,378)	(1,601,536)	**(9,635,307)**
Net interest income	**6,910,524**	**3,242,584**	**1,326,263**	**11,479,371**
Credit loss expense	(310,714)	(637,288)	–	**(948,002)**
Fee and commission income	1,985,758	662,060	65,351	**2,713,169**
Fee and commission expense	(617,524)	(254,214)	–	**(871,738)**
Other non-interest income	1,011,010	808,159	1,012,341	**2,831,510**
Non-interest expense	(3,920,905)	(3,723,592)	(1,353,951)	**(8,998,448)**
Segment profit	**5,058,149**	**97,709**	**1,050,004**	**6,205,862**
Income tax expense	(1,068,211)	(20,635)	(221,746)	**(1,310,591)**
Profit for the period	**3,989,938**	**77,074**	**828,258**	**4,895,271**

2017	*Retail banking*	*Corporate banking*	*Trading and IB*	*Total*
External income				
Interest revenue calculated using effective interest rate	8,480,783	6,854,415	2,225,748	**17,560,946**
Other interest revenue	407	8,908	53,992	**63,307**
Interest expense	(3,424,273)	(4,201,232)	(658,564)	**(8,284,069)**
Net interest income	**5,056,917**	**2,662,091**	**1,621,176**	**9,340,184**
Credit loss expense	(415,187)	(797,687)	–	**(1,212,874)**
Fee and commission income	1,871,092	491,154	70,899	**2,433,145**
Fee and commission expense	(554,120)	(198,182)	(2)	**(752,304)**
Other non-interest income	1,241,583	1,051,097	200,178	**2,492,858**
Non-interest expense	(3,579,135)	(3,431,403)	(934,587)	**(7,945,125)**
Segment profit/(loss)	**3,621,150**	**(222,930)**	**957,664**	**4,355,884**
Income tax expense	(604,881)	(34,105)	(160,852)	**(799,838)**
Profit for the period	**3,016,269**	**(257,035)**	**796,812**	**3,556,046**

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

	2018				
	Interest bearing			*Non-interest bearing*	*Total*
	Retail banking	*Corporate banking*	*Trading and IB*		
Assets	89,167,642	107,109,553	32,840,387	52,001,796	**281,119,378**
Liabilities	83,839,754	107,451,030	48,103,961	2,690,332	**242,085,077**

	2017				
	Interest bearing			*Non-interest bearing*	*Total*
	Retail banking	*Corporate banking*	*Trading and IB*		
Assets	70,521,233	94,646,267	37,548,156	50,020,197	**252,735,853**
Liabilities	76,763,097	103,005,465	33,833,643	3,157,482	**216,759,687**

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

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

(thousands of Armenian drams)

5. Segment information (continued)

Geographic information

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

Revenue from contracts with customers

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

2018	*Retail banking*	*Corporate banking*	*Investment banking*	*Total*
Commission income				
Plastic cards operations	1,073,999	–	–	**1,073,999**
Wire transfer fees	544,656	184,778	–	**729,434**
Settlement operation	78,454	113,845	65,351	**257,650**
Loan accounts servicing fees	103,287	152,161	–	**255,448**
Guarantees and letters of credit	281	49,281	–	**49,562**
Other	185,081	161,995	–	**347,076**
Total revenue from contracts with customers	**1,985,758**	**662,060**	**65,351**	**2,713,169**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	*2017*
Cash on hand	8,731,933	8,802,423
Current accounts with the Central Bank, including obligatory reserves	29,218,035	29,005,963
Placements with other banks	2,526,734	2,033,663
Less – allowance for impairment	(5,844)	–
Cash and cash equivalents	**40,470,858**	**39,842,049**

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

	2018
ECL allowance as at 1 January 2018	**6,004**
Changes in ECL	(160)
At 31 December 2018	**5,844**

As of 31 December 2018 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 18% of certain obligations of the Group, denominated in foreign currency and amounts to AMD 23,711,584 thousand (2017: AMD 22,573,220 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

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

7. Trading securities

Trading securities owned comprise:

	2018	*2017*
Investments in funds	640,554	–
Debt securities issued by the RA government	383,618	787,330
Corporate bonds	136,173	–
Trading securities	**1,160,345**	**787,330**

(thousands of Armenian drams)

8. Amounts due from banks

Amounts due from banks comprise:

	2018	2017
Loans and deposits to banks	1,937,868	753,858
Receivables from payment and settlement operations	1,286,688	1,194,907
Deposits and deposited funds with CBA	1,142,500	920,000
Other amounts	858,086	652,177
Reverse repurchase agreements	–	7,025,413
	5,225,142	**10,546,355**
Less – allowance for impairment	(12,655)	–
Amounts due from banks	**5,212,487**	**10,546,355**

As at 31 December 2017 amounts receivable under reverse repurchase agreements were collateralized by RA government and corporate bonds with fair value of AMD 11,831,416 thousand.

As of 31 December 2018 the balances included loans and deposits to banks in amount of AMD 1,937,868 thousand due from two counterparties (2017: AMD 753,858 thousand due from one counterparty).

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

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

	Stage 1	*Total*
Gross carrying value as at 1 January 2018	**10,546,355**	**10,546,355**
New assets originated or purchased	4,204,943	**4,204,943**
Assets repaid	(9,014,185)	**(9,014,185)**
Foreign exchange adjustments	(511,971)	**(511,971)**
At 31 December 2018	**5,225,142**	**5,225,142**

	Stage 1	*Total*
ECL allowance as at 1 January 2018	**5,979**	**5,979**
New assets originated or purchased	14,951	**14,951**
Assets repaid	(7,963)	**(7,963)**
Foreign exchange adjustments	(312)	**(312)**
At 31 December 2018	**12,655**	**12,655**

9. Loans and advances to customers

	2018	2017
Loans to customers	160,878,193	139,239,113
Overdrafts	35,459,413	25,558,298
Reverse repurchase agreements	4,022,197	4,820,511
Financial lease receivables	300,884	316,157
Factoring	17,406	95,247
Letter of credit	3,634	1,525
	200,681,727	**170,030,851**
Less − allowance for loan impairment	(4,399,395)	(4,863,351)
Total loans and advances to customers	**196,282,332**	**165,167,500**

	2018	2017
Business loans	110,959,901	98,280,538
Consumer loans	35,520,946	27,233,358
Mortgage loans	35,030,730	28,612,660
Gold loans	19,170,150	15,904,295
Gross loans and advances to customers	**200,681,727**	**170,030,851**
Less – allowance for impairment	(4,399,395)	(4,863,351)
Total loans and advances to customers	**196,282,332**	**165,167,500**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers

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

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**93,069,513**	**574,521**	**4,636,504**	**98,280,538**
New assets originated or purchased	60,193,620	–	–	**60,193,620**
Assets repaid	(45,397,351)	(564,339)	(310,334)	**(46,272,024)**
Transfers to Stage 2	(1,677,555)	1,677,555	–	**–**
Transfers to Stage 3	–	(1,606,726)	1,606,726	**–**
Recoveries	–	–	317,047	**317,047**
Amounts written off	–	–	(1,149,996)	**(1,149,996)**
Foreign exchange adjustments	(376,561)	(13)	(32,710)	**(409,284)**
At 31 December 2018	**105,811,666**	**80,998**	**5,067,237**	**110,959,901**

Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**745,396**	**20,554**	**2,733,496**	**3,499,446**
New assets originated or purchased	559,390	–	–	**559,390**
Assets repaid	(214,186)	(14,645)	(27,933)	**(256,764)**
Transfers to Stage 2	(70,190)	70,190	–	**–**
Transfers to Stage 3	–	(61,664)	61,664	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	14,254	98,652	**112,906**
Unwinding of discount (recognised in interest revenue)	–	–	6,780	**6,780**
Changes to models and inputs used for ECL calculations	(94,949)	(3,912)	25,677	**(73,184)**
Recoveries	–	–	317,047	**317,047**
Amounts written off	–	–	(1,149,996)	**(1,149,996)**
Foreign exchange adjustments	(4,504)	(4)	(19,796)	**(24,304)**
At 31 December 2018	**920,957**	**24,773**	**2,045,591**	**2,991,321**

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

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**26,143,304**	**289,776**	**800,278**	**27,233,358**
New assets originated or purchased	20,605,231	–	–	**20,605,231**
Assets repaid	(11,266,081)	(142,306)	(236,399)	**(11,644,786)**
Transfers to Stage 1	27,548	(24,936)	(2,612)	**–**
Transfers to Stage 2	(1,717,958)	1,720,771	(2,813)	**–**
Transfers to Stage 3	–	(1,351,180)	1,351,180	**–**
Recoveries	–	–	516,781	**516,781**
Amounts written off	–	–	(1,123,834)	**(1,123,834)**
Foreign exchange adjustments	(63,488)	(47)	(2,269)	**(65,804)**
At 31 December 2018	**33,728,556**	**492,078**	**1,300,312**	**35,520,946**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**303,328**	**48,133**	**257,744**	**609,205**
New assets originated or purchased	155,160	–	–	**155,160**
Assets repaid	(109,468)	(15,166)	(47434)	**(172,068)**
Transfers to Stage 1	5,580	(4,055)	(1,525)	**–**
Transfers to Stage 2	(117,601)	118,986	(1,385)	**–**
Transfers to Stage 3	–	(102,818)	102,818	**–**
Impact on period end ECL of exposures transferred between stages during the period	(5,337)	11,501	430,652	**436,816**
Unwinding of discount (recognised in interest revenue)	–	–	21,827	**21,827**
Changes to models and inputs used for ECL calculations	(116,743)	(21,952)	138,946	**251**
Recoveries	–	–	516,781	**516,781**
Amounts written off	–	–	(1,123,834)	**(1,123,834)**
Foreign exchange adjustments	(791)	(9)	(307)	**(1,107)**
At 31 December 2018	**114,128**	**34,620**	**294,283**	**443,031**

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

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**26,199,049**	**263,824**	**2,149,787**	**28,612,660**
New assets originated or purchased	12,229,856	–	–	**12,229,856**
Assets repaid	(4,804,836)	(41,682)	(226,570)	**(5,073,088)**
Transfers to Stage 1	68,159	(65,358)	(2,801)	**–**
Transfers to Stage 2	(468,022)	482,874	(14,852)	**–**
Transfers to Stage 3	–	(518,556)	518,556	**–**
Recoveries	–	–	225,500	**225,500**
Amounts written off	–	–	(817,117)	**(817,117)**
Foreign exchange adjustments	(145,538)	(141)	(1,402)	**(147,081)**
At 31 December 2018	**33,078,668**	**120,961**	**1,831,101**	**35,030,730**

Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**321,234**	**50,896**	**1,095,993**	**1,468,123**
New assets originated or purchased	36,059	–	–	**36,059**
Assets repaid	(29,739)	(7,361)	(58,042)	**(95,142)**
Transfers to Stage 1	16,278	(15,051)	(1,227)	**–**
Transfers to Stage 2	(65,396)	71,875	(6,479)	**–**
Transfers to Stage 3	–	(81,444)	81,444	**–**
Impact on period end ECL of exposures transferred between stages during the period	(15,688)	1,442	26,488	**12,242**
Unwinding of discount (recognised in interest revenue)	–	–	18,684	**18,684**
Changes to models and inputs used for ECL calculations	(186,894)	(9,772)	107,878	**(88,788)**
Recoveries	–	–	225,500	**225,500**
Amounts written off	–	–	(817,117)	**(**817,117**)**
Foreign exchange adjustments	(1,512)	(25)	(726)	**(2,263)**
At 31 December 2018	**74,342**	**10,560**	**672,396**	**757,298**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Allowance for impairment of loans and advances to customers (continued)

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

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**15,792,726**	**87,567**	**24,002**	**15,904,295**
New assets originated or purchased	17,520,988	−	−	**17,520,988**
Assets repaid	(14,036,696)	(70,816)	(30,344)	**(14,137856)**
Transfers to Stage 1	5,413	(5,413)	−	**−**
Transfers to Stage 2	(608,374)	608,374	−	**−**
Transfers to Stage 3	−	(360,331)	360,331	**−**
Recoveries	−	−	32,428	**32,428**
Amounts written off	−	−	(143,074)	**(143,074)**
Foreign exchange adjustments	(6,535)	(95)	(1)	**(6,631)**
At 31 December 2018	**18,667,522**	**259,286**	**243,342**	**19,170,150**

Gold loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**9,503**	**5,161**	**11,201**	**25,865**
New assets originated or purchased	173,944	−	−	**173,944**
Assets repaid	(7,878)	(3,273)	(6,540)	**(17,691)**
Transfers to Stage 1	299	(299)	−	**−**
Transfers to Stage 2	(142,987)	142,987	−	**−**
Transfers to Stage 3	−	(117,961)	117,961	**−**
Impact on period end ECL of exposures transferred between stages during the period	(293)	2,265	131,394	**133,366**
Unwinding of discount (recognised in interest revenue)	−	−	1,638	**1,638**
Changes to models and inputs used for ECL calculations	1,255	24	−	**1,279**
Recoveries	−	−	32,428	**32,428**
Amounts written off	−	−	(143,074)	**(143,074)**
Foreign exchange adjustments	(4)	(5)	(1)	**(10)**
At 31 December 2018	**33,839**	**28,899**	**145,007**	**207,745**

A reconciliation of the allowance for impairment of loans to customers by class during the year ended 31 December 2017 is as follows:

	2017										
	Manu-facturing	*Energy*	*Agriculture (including loans to individuals)*	*Construc-tion*	*Trading*	*Transport and commu-nications*	*Services*	*Consumer loans to individuals*	*Mortgage*	*Other*	*Total*
At 1 January 2017	**547,956**	**44,656**	**734,327**	**708,490**	**417,923**	**220,099**	**121,723**	**676,991**	**1,045,123**	**36,908**	**4,554,196**
Charge/(reversal) for the year	30,820	24,642	197,988	87,276	232,288	23,419	92,338	218,628	182,016	56,898	**1,146,313**
Amounts written off	(9,747)	−	(110,431)	(90,418)	(207,695)	−	(136,936)	(1,190,886)	(480,995)	(47,081)	**(2,274,189)**
Recoveries	19,853	−	19,391	26,457	65,571	9,155	54,395	779,854	430,147	32,208	**1,437,031**
At 31 December 2017	**588,882**	**69,298**	**841,275**	**731,805**	**508,087**	**252,673**	**131,520**	**484,587**	**1,176,291**	**78,933**	**4,863,351**
Individual impairment	541,002	−	792,508	708,705	345,723	240,206	449	38,299	917,763	19,988	**3,604,643**
Collective impairment	47,880	69,298	48,767	23,100	162,364	12,467	131,071	446,288	258,528	58,945	**1,258,708**
	588,882	**69,298**	**841,275**	**731,805**	**508,087**	**252,673**	**131,520**	**484,587**	**1,176,291**	**78,933**	**4,863,351**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,049,703**	**−**	**1,010,943**	**1,109,031**	**1,217,730**	**479,852**	**49,890**	**274,782**	**1,790,144**	**1,005,311**	**7,987,386**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

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

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

Concentration of loans and advances to customers

As at 31 December 2018 the Group had a concentration of loans totalling to AMD 41,852,275 thousand due from the ten largest groups of borrowers (20.9% of gross loan portfolio) (2017: AMD 48,686,742 thousand or 28.6% of gross loan portfolio). An allowance for impairment in amount of AMD 1,355,805 thousand (2017: AMD 1,250,634 thousand) was created against these loans.

Loans have been extended to the following types of customers:

	2018	*2017*
Private companies	105,218,342	92,063,900
Individuals	90,611,259	72,186,041
Financial organizations	4,022,198	4,820,511
State companies	829,928	960,399
	200,681,727	**170,030,851**

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

	2018	*2017*
Consumer loans to individuals	54,691,087	43,137,483
Mortgage	35,030,730	28,612,812
Trade	29,598,144	23,146,111
Other	23,968,584	15,660,561
Construction	19,054,286	13,557,363
Services	10,714,497	7,139,864
Agriculture (including loans to individuals)	10,122,610	7,012,168
Energy	8,403,730	7,699,388
Manufacturing	7,318,002	6,364,056
Transport and communication	1,780,057	17,701,045
Gross loan portfolio	**200,681,727**	**170,030,851**
Less allowance for loan impairment	(4,399,395)	(4,863,351)
Total	**196,282,332**	**165,167,500**

(thousands of Armenian drams)

9. Loans and advances to customers (continued)

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2018 is as follows:

	2018	*2017*
Gross investment in finance lease, receivable		
Not later than 1 year	265,912	254,216
1-5 years	47,777	80,438
More than 5 years	–	5,580
	313,689	**340,234**
Unearned future finance income on finance lease	(12,805)	(24,077)
Net investment in financial lease, before impairment allowance	**300,884**	**316,157**
Impairment allowance	(231,623)	(237,461)
Net investment in finance lease	**69,261**	**78,696**

10. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	2018	*2017*
Debt securities at amortised cost (previously classified as held-to-maturity)		
RA government bonds	584,339	346,140
Less – allowance for impairment	(281)	–
Debt securities at amortised cost (previously classified as held-to-maturity)	**584,058**	**346,140**
RA government bonds pledged under repo	2,087,000	–
Less – allowance for impairment	(9,542)	–
Debt securities at amortised cost (previously classified as held-to-maturity) pledged under repurchase agreements	**2,077,458**	**–**
Debt securities at FVOCI		
RA government bonds	10,862,103	–
RA corporate bonds	5,825,950	–
Debt securities at FVOCI	**16,688,053**	**–**
RA government bonds	6,014,555	–
Debt securities at FVOCI pledged under repurchase agreements	**6,014,555**	**–**
		–
Equity securities at FVOCI		–
Equity shares of OECD countries	1,026,549	–
RA equity shares	57,794	–
Equity securities at FVOCI	**1,084,343**	**–**
Available-for-sale securities		
RA government bonds	–	18,518,365
RA corporate bonds	–	2,645,006
Equity shares of OECD countries	–	888,409
Investments in funds	–	579,582
Corporate bonds of OECD countries	–	123,062
RA equity shares	–	57,794
Available-for-sale securities	**–**	**22,812,218**
RA government bonds	–	3,056,113
Available-for-sale securities pledged under repurchase agreements	**–**	**3,056,113**
Total	**26,448,467**	**26,214,471**

(thousands of Armenian drams)

10. Investment securities (continued)

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

Debt securities at amortised cost	***Stage 1***	***Total***
Gross carrying value as at 1 January 2018	**346,140**	**346,140**
New assets originated or purchased	2,671,163	**2,671,163**
Assets repaid	(345,964)	**(345,964)**
At 31 December 2018	**2,671,339**	**2,671,339**

Debt securities at amortised cost	***Stage 1***	***Total***
ECLs as at 1 January 2018	**2,064**	**2,064**
New assets originated or purchased	9,824	**9,824**
Assets repaid	(2,065)	**(2,065)**
At 31 December 2018	**9,823**	**9,823**

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

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying value as at 1 January 2018	**24,342,546**	**24,342,546**
New assets originated or purchased	10,220,585	**10,220,585**
Assets repaid	(3,950,020)	**(3,950,020)**
Assets sold	(7,910,503)	**(7,910,503)**
At 31 December 2018	**22,702,608**	**22,702,608**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2018	**284,213**	**284,213**
New assets originated or purchased	134,266	**134,266**
Assets repaid	(16,723)	**(16,723)**
Assets sold	(90,929)	**(90,929)**
Changes to models and inputs used for ECL calculations	(35,989)	**(35,989)**
At 31 December 2018	**274,838**	**274,838**

11. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	***Equipment***	***Vehicles***	***Computers***	***Other fixed assets***	***Leasehold improve-ments***	***Total***
Cost or revalued amount							
31 December 2017	**4,917,018**	**751,200**	**210,652**	**3,316,807**	**813,491**	**1,072,272**	**11,081,440**
Additions	83,003	85,601	310	688,049	158,657	209,722	**1,225,342**
Disposals and write-offs	–	(66,617)	(347)	(329,883)	(54,592)	(764)	**(452,203)**
31 December 2018	**5,000,021**	**770,184**	**210,615**	**3,674,973**	**917,556**	**1,281,230**	**11,854,579**
Accumulated depreciation							
31 December 2017	**192,788**	**659,363**	**206,067**	**2,623,820**	**648,020**	**636,095**	**4,966,153**
Depreciation charge	193,204	36,331	318	241,867	35,190	94,487	**601,397**
Disposals and write-offs	–	(66,606)	–	(329,731)	(54,908)	(764)	**(452,009)**
31 December 2018	**385,992**	**629,088**	**206,385**	**2,535,956**	**628,302**	**729,818**	**5,115,541**
Net book value							
31 December 2017	**4,724,230**	**91,837**	**4,585**	**692,987**	**165,471**	**436,177**	**6,115,287**
31 December 2018	**4,614,029**	**141,096**	**4,230**	**1,139,017**	**289,254**	**551,412**	**6,739,038**

(thousands of Armenian drams)

11. Property and equipments (continued)

	Land and buildings	*Equipment*	*Vehicles*	*Computers*	*Other fixed assets*	*Leasehold improve-ments*	*Total*
Cost or revalued amount							
31 December 2016	**5,134,018**	**753,258**	**208,627**	**2,936,691**	**741,403**	**965,437**	**10,739,434**
Additions	103	31,317	6,025	414,507	108,028	178,026	**738,006**
Disposals and write-offs	(217,103)	(33,375)	(4,000)	(34,391)	(35,940)	(71,191)	**(396,000)**
31 December 2017	**4,917,018**	**751,200**	**210,652**	**3,316,807**	**813,491**	**1,072,272**	**11,081,440**
Accumulated depreciation							
31 December 2016	**–**	**634,109**	**193,354**	**2,370,101**	**601,374**	**555,729**	**4,354,667**
Depreciation charge	197,005	58,625	12,935	285,869	67,782	108,884	**731,100**
Disposals and write-offs	(4,217)	(33,371)	(222)	(32,150)	(21,136)	(28,518)	**(119,614)**
31 December 2017	**192,788**	**659,363**	**206,067**	**2,623,820**	**648,020**	**636,095**	**4,966,153**
Net book value							
31 December 2016	**5,134,018**	**119,149**	**15,273**	**566,590**	**140,029**	**409,708**	**6,384,767**
31 December 2017	**4,724,230**	**91,837**	**4,585**	**692,987**	**165,471**	**436,177**	**6,115,287**

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

Fully depreciated items

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

Property, plant and equipment in the phase of installation

As of 31 December 2018 property, plant and equipment included assets in the phase of installation in amount of AMD 155,545 thousand (2017: AMD 137,069 thousand).

Restrictions on title of property, plant and equipment

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

12. Intangible assets

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

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

(thousands of Armenian drams)

12. Intangible assets (continued)

	Licenses	*Computer software*	*Other*	*Total*
Cost				
31 December 2016	**685,286**	**61,566**	**79,234**	**826,086**
Additions	29,605	5,250	93,600	**128,455**
31 December 2017	**714,891**	**66,816**	**172,834**	**954,541**
Accumulated amortization and impairment				
31 December 2016	**601,610**	**41,470**	**43,204**	**686,284**
Amortisation charge	31,426	2,998	7,295	**41,719**
31 December 2017	**633,036**	**44,468**	**50,499**	**728,003**
Net book value				
31 December 2016	**83,676**	**20,096**	**36,030**	**139,802**
31 December 2017	**81,855**	**22,348**	**122,335**	**226,538**

Fully amortized items

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

13. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 31 December 2018 and 31 December 2017 are shown below:

	2018	*2017*
Property, plant and equipment	1,947,843	1,807,659
Vehicles	–	11,000
Other assets	29,771	13,460
Total repossessed collateral	**1,977,614**	**1,832,119**

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell. During 2018 impairment loss on repossessed assets in amount of AMD 35,871 thousand was recognised (2017: AMD 58,078 thousand).

14. Other assets and liabilities

Other assets comprise:

	2018	*2017*
Other financial assets		
Accounts receivables	280,237	416,023
Receivables from unsettled transactions	227,772	355,454
Receivables on cash transfers	51,892	7,005
Total other financial assets	**559,901**	**778,482**
Less – allowance for impairment of other financial assets	(25,726)	(43,421)
Total net other financial assets	**534,175**	**735,061**
Other non-financial assets		
Precious metals	945,824	444,766
Prepayments to suppliers	404,411	195,129
Other prepaid taxes	367,742	342,867
Materials	213,224	239,255
Unamortized insurance premium	56,743	44,994
Settlements with employees	7,922	267
Other	1,865	1,865
Total other non-financial assets	**1,997,731**	**1,269,143**
Other assets	**2,531,906**	**2,004,204**

(thousands of Armenian drams)

14. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 and 31 December 2017 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**35,030**	**280**	**8,111**	**43,421**
Assets originated and repaid (net amount)	25,159	(197)	(1,975)	**22,987**
Transfers to Stage 1	9	(9)	–	**–**
Transfers to Stage 3	(44,426)	(2)	44,428	**–**
Recoveries	–	–	42,921	**42,921**
Amounts written off	–	–	(82,852)	**(82,852)**
Impact on period end ECL of exposures transferred between stages during the period	(423)	(6)	(374)	**(803)**
Foreign exchange adjustments	52	–	–	**52**
At 31 December 2018	**15,401**	**66**	**10,259**	**25,726**

	Total
As at 1 January 2016	**45,203**
Charge for the year	36,567
Amounts written off	(22,596)
As at 31 December 2016	**59,174**
Charge for the year	66,561
Amounts written off	(82,314)
As at 31 December 2017	**43,421**

Other liabilities comprise:

	2018	*2017*
Other financial liabilities		
Due to personnel	727,471	600,445
Accounts payables	276,769	343,221
Total other financial liabilities	**1,004,240**	**943,666**
Other non-financial liabilities		
Tax payable, other than income tax	442,064	360,502
Grants related to assets	23,584	26,008
Other	12,725	6,697
Total other non-financial liabilities	**478,373**	**393,207**
Total other liabilities	**1,482,613**	**1,336,873**

15. Amounts due to banks

Amounts due to banks comprise:

	2018	*2017*
Loans from banks	5,862,785	12,004,512
Repurchase agreements with CBA	4,002,716	–
Repurchase agreements with banks	3,876,869	2,900,619
Correspondent accounts of other banks	114,833	143,170
Other liabilities	106,167	125,166
Total amounts due to banks	**13,963,370**	**15,173,467**

As of 31 December 2018 the Group has received loans from 4 banks (2017: also from 4 banks). The Group has repurchase agreement liabilities to 2 banks as of 31 December 2018 (2017: to 1 bank).

As of 31 December 2018 83.9% of correspondent accounts of other banks are concentrated within 1 counterparty (2017: 86% within 2 counterparties).

(thousands of Armenian drams)

16. Derivative financial instruments

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

	2018			*2017*		
	Notional amount	***Fair values***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Swaps – foreign currency	9,430,627	–	26,583	7,628,876	–	68,857
Total derivative assets/liabilities	**9,430,627**	**–**	**26,583**	**7,628,876**	**–**	**68,857**

As of 31 December 2018, the Group has positions in the following types of derivatives:

Swaps

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

17. Amounts due to customers

The amounts due to customers include the following:

	2018	*2017*
Corporate customers		
Current/settlement accounts	42,974,649	42,525,666
Time deposits	58,623,562	54,625,403
	101,598,211	**97,151,069**
Retail customers		
Current/settlement accounts	27,693,588	24,815,673
Time deposits	57,922,317	51,947,415
	85,615,905	**76,763,088**
Amounts due to customers	**187,214,116**	**173,914,157**

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

As of 31 December 2018 the aggregate balance of top ten customers of the Group amounts to AMD 73,244,218 thousand (2017: AMD 78,683,050 thousand) or 39.5% of total customer accounts (2017: 45.2%).

18. Debt securities issued

Debt securities issued consisted of the following:

	2018	*2017*
Domestic bonds in USD	9,769,113	4,888,531
Domestic bonds in AMD	4,095,754	1,043,438
Domestic bonds in EUR	2,788,577	–
Debt securities issued	**16,653,444**	**5,931,969**

The contractual maturity of AMD and USD bonds ranges from 2019-2021, The contractual maturity of EUR denominated bonds is in 2021. Bonds issued by the Bank are listed on Armenia Securities Exchange.

(thousands of Armenian drams)

19. Taxation

The corporate income tax expense comprises:

	2018	*2017*
Current tax charge	1,266,424	990,049
Adjustments of current income tax of previous years	–	(86,187)
Deferred tax charge/(credit) – origination and reversal of temporary differences	44,167	(104,024)
Total income tax expense	**1,310,591**	**799,838**

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

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

	2018	*2017*
Profit before tax	**6,205,862**	**4,355,884**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**1,241,172**	**871,177**
Non-deductible expenses	69,419	14,848
Adjustments of current income tax of previous years	–	(86,187)
Income tax expense	**1,310,591**	**799,838**

Deferred tax assets and liabilities as of 31 December 2018 and 2017 and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	Balance 1 January 2017	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2017*	*Effect of adoption of IFRS 9*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2018*
Other liabilities	41,163	70,672	–	111,835	–	24,042	–	135,877
Repossessed assets	39,209	11,616	–	50,825	–	7,174	–	57,999
Loans and advances to customers	(626,276)	22,157	–	(604,119)	147,858	(113,463)	–	(569,724)
Investment securities at FVOCI	(337,476)	–	(201,646)	(539,122)	–	1,875	152,483	(384,764)
Property, plant and equipment	(255,144)	31,841	–	(223,303)	–	41,989	–	(181,314)
Other impairment and provisions	27,190	(31,273)	–	(4,083)	16,356	(3,859)	–	8,414
Amounts due to customers	(1,807)	(989)	–	(2,796)	–	(1,925)	–	(4,721)
Net deferred tax liabilities	**(1,113,141)**	**104,024**	**(201,646)**	**(1,210,763)**	**164,214**	**(44,167)**	**152,483**	**(938,233)**

20. Other borrowed funds

Other borrowed funds consisted of the following:

	2018	*2017*
Loans from CBA	5,956,021	5,117,959
Loans from refinancing credit organizations	9,380,933	6,216,391
Loans from international financial institution	297,376	1,271,923
Loans from Government of the RA	50,083	53,077
Other borrowed funds	**15,684,413**	**12,659,350**

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

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

Loans from refinancing credit organizations include loans from National Mortgage Company and Home for Youth.

(thousands of Armenian drams)

20. Other borrowed funds (continued)

Covenants

As at 31 December 2018 and 2017 the Group was in compliance with all debt covenants.

21. Subordinated loans

Subordinated loans consisted of the following:

	2018	*2017*
Subordinated debt provided by related party	5,852,819	5,854,396
Subordinated loans	**5,852,819**	**5,854,396**

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

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

22. Commitments and contingencies

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

Commitments and contingencies

As of 31 December the Group's commitments and contingencies comprised the following:

	2018	*2017*
Credit related commitments		
Undrawn loan commitments	12,491,499	10,248,879
Financial guarantees	3,677,373	3,232,716
Letters of credit	1,484,715	58,010
	17,653,587	**13,539,605**
Operating lease commitments		
Not later than 1 year	642,068	579,847
Later than 1 year but not later than 5 years	1,594,628	1,952,989
Later than 5 years	1,236,165	2,398,534
	3,472,861	**4,931,370**
Commitments and contingencies	**21,126,448**	**18,470,975**
Provisions for ECL for credit related commitments	70,056	–

(thousands of Armenian drams)

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

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

Undrawn loan commitments	***Stage 1***	***Total***
ECLs as at 1 January 2018	28,603	**28,603**
New exposures	7,823	**7,823**
Expired exposures	(22,500)	**(22,500)**
Foreign exchange adjustments	(143)	**(143)**
At 31 December 2018	**13,783**	**13,783**

Letters of credit	***Stage 1***	***Total***
ECLs as at 1 January 2018	**680**	**680**
New exposures	16,203	**16,203**
Expired exposures	(680)	**(680)**
At 31 December 2018	**16,203**	**16,203**

Financial guarantees	***Stage 1***	***Total***
ECLs as at 1 January 2018	**38,450**	**38,450**
New exposures	24,178	**24,178**
Expired exposures	(22,194)	**(22,194)**
Foreign exchange adjustments	(364)	**(364)**
At 31 December 2018	**40,070**	**40,070**

Insurance

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

23. Equity

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

In accordance with the Bank's statues, the share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2017: 54,722 ordinary shares and 333 privileged shares).

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

	2018		***2017***	
	Paid-in share capital	***% of total paid-in capital***	***Paid-in share capital***	***% of total paid-in capital***
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	2,307,900	14.06	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	820,800	5.00
	16,416,633	**100**	**16,416,633**	**100**

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

(thousands of Armenian drams)

23. Equity (continued)

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

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

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes.

24. Net interest income

Net interest income comprises:

	2018	***2017***
Financial assets measured at amortized cost		
Loans to customers	18,522,832	15,621,760
Amounts due from banks	104,883	78,279
Investment securities	98,424	21,458
Cash equivalents	14,378	8,209
Other interest income	106,560	17,483
Financial assets measured at fair value through other comprehensive income		
Debt securities at FVOCI/AFS	2,166,877	1,813,757
Interest revenue calculated using effective interest rate	**21,013,954**	**17,560,946**
Trading securities	93,601	53,992
Finance leases	7,123	9,315
Other interest revenue	**100,724**	**63,307**
Total interest revenue	**21,114,678**	**17,624,253**
Amounts due to customers	7,027,060	6,855,003
Other borrowed funds	1,125,113	819,192
Debt securities issued	817,932	173,838
Subordinated loans	411,790	404,862
Amounts due to banks	253,412	31,174
Interest expense	**9,635,307**	**8,284,069**
Net interest income	**11,479,371**	**9,340,184**

(thousands of Armenian drams)

25. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(160)	–	–	**(160)**
Amounts due from banks	8	6,988	–	–	**6,988**
Loans and advances to customers	9	144,633	(46,595)	819,738	**917,776**
Debt securities measured at amortised cost	10	7,759	–	–	**7,759**
Debt securities measured at FVOCI	10	(9,375)	–	–	**(9,375)**
Other financial assets	14	24,736	(203)	(2,349)	**22,184**
Financial guarantees	22	1,984	–	–	**1,984**
Loan commitments	22	(14,677)	–	–	**(14,677)**
Letters of credit	22	15,523	–	–	**15,523**
Total credit loss expense		**177,411**	**(46,798)**	**817,389**	**948,002**

Other impairment and provisions amounting 35,871 AMD thousand (2017: 58,078 AMD thousand) refers to the impairment loss of repossessed assets.

26. Net fee and commission income

Net fee and commission income comprises:

	2018	*2017*
Plastic cards operations	1,073,999	947,367
Wire transfer fees	729,434	722,044
Settlement operation	257,650	312,131
Fees and commission income from loans	255,448	174,983
Guarantees and letters of credit	49,562	43,690
Other	347,076	232,930
Fee and commission income	**2,713,169**	**2,433,145**
Plastic cards operations	570,510	524,870
Wire transfer fees	140,100	100,136
Settlement operations	103,146	91,569
Guarantees and letters of credit	9,841	5,015
Other expenses	48,141	30,714
Fee and commission expense	**871,738**	**752,304**
Net fee and commission income	**1,841,431**	**1,680,841**

27. Net trading income

	2018	*2017*
Net gains from foreign currency transactions	1,365,239	1,387,360
Net gain/(loss) on derivative financial instruments	153,882	(153,567)
Net gain from trading securities	20,023	45,861
Total net trading income	**1,539,144**	**1,279,654**

(thousands of Armenian drams)

28. Other income

	2018	*2017*
Fines and penalties received	499,585	589,407
Income from cash collection services	38,440	31,812
Net income from operations with precious metals	8,224	110,193
Dividend income	6,488	4,127
Income from grants	2,424	2,424
Other income	165,655	172,149
Total other income	**720,816**	**910,112**

29. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2018	*2017*
Salaries	4,810,802	4,250,933
Other expenses	96,065	47,856
Personnel expenses	**4,906,867**	**4,298,789**
Advertising costs	634,793	315,430
Operating lease	575,703	507,801
Insurance of deposits	202,174	231,003
Expenses related to Armenian Card payment system	199,541	174,557
Security	198,723	205,518
Software maintenance expenses	195,762	261,194
Fixed assets maintenance	129,086	125,906
Communications	124,743	133,030
Consulting and other service	112,527	72,333
Insurance expenses	111,323	100,583
Utility expenses	98,812	105,771
Taxes, other than income tax, duties	51,957	35,006
Business trip expenses	47,298	24,020
Office supplies	31,515	40,745
Financial system mediator	25,086	18,887
Penalties paid	2,009	3,891
Loss from disposal of fixed assets	−	1,450
Other operating expenses	167,398	142,303
Other expenses	484,083	316,011
Other operating expenses	**3,392,533**	**2,815,439**

30. Risk management

Introduction

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure

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

The Board

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

Direction

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

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

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

Risk management department

The main functions of the risk management department are:

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Risk management structure (continued)

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

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

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

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Group's Risk management department presents monthly analysis of the Group's expected repayments, amounts to be lent and the positions to the Group's Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Group, limits of amounts attracted by the Group, their types or gross interest expenses, limits on concentrations of the financial sources used by the Group for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Group's related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Group's assets and liabilities, the ways of coordinating the Group's other divisions activities, who can influence the Group's liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Group's executive body and Board.

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

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

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

Excessive risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

Credit risk

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

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

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

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

Credit-related commitments risks

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

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

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

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

Impairment assessment

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

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Definition of default and cure

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

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

PD estimation process

Treasury and interbank relationships

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

Loans customers

Bucketing

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

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

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

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

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Loss given default

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

Significant increase in credit risk

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

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

Forward-looking information and multiple economic scenarios

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

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2018.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2019*	*2020*	*2021*
GDP annual growth, %					
	Upside	10%	6.7	6.7	6.7
	Base case	80%	5.4	5.1	4.9
	Downside	10%	3.9	3.3	2.9
USD/AMD exchange rate					
	Upside	10%	495	500	500
	Base case	80%	490	495	498
	Downside	10%	485	490	493
Central Bank base rate growth, %					
	Upside	10%	0.25	0.50	0.75
	Base case	80%	0.0	0.25	0.50
	Downside	10%	-0.25	0.0	0.25
Unemployment rate, %					
	Upside	10%	16.0	15.9	15.8
	Base case	80%	15.8	15.7	15.6
	Downside	10%	15.6	15.5	15.4

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above.
The table below shows the credit quality by class of asset in the consolidated statement of financial position, based on the Group's credit rating system.

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

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

	Neither past due nor impaired			*Past due but not individually impaired*	*Individually impaired*	*Total*
	High grade	*Standard grade*	*Sub-standard grade*			
31 December 2017						
Loans and advances to customers	35,148,213	125,750,079	–	1,145,173	7,987,386	**170,030,851**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans as at 31 December 2017, by age, is provided below. The majority of the past due loans are not considered to be impaired.

(thousands of Armenian drams)

30. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	2017				
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans and advances to customers					
Manufacture	–	10,016	5,296	14,672	**29,984**
Agriculture	186	2,638	4,788	26,842	**34,454**
Construction	909	–	–	–	**909**
Trade	–	–	14,196	14,923	**29,119**
Transport and communication	–	–	–	12,014	**12,014**
Consumer loans to individuals	191,801	131,696	72,872	311,736	**708,105**
Mortgage	28,088	66,224	17,632	214,449	**326,393**
Other sectors	–	–	–	4,195	**4,195**
Total	**220,984**	**210,574**	**114,784**	**598,831**	**1,145,173**

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

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

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

	2018			
	Armenia	***Other non-OECD countries***	***OECD countries***	***Total***
Cash and cash equivalents	37,944,682	2,327,575	198,601	**40,470,858**
Trading securities	1,160,345	–	–	**1,160,345**
Amounts due from banks	3,359,131	1,006,353	847,003	**5,212,487**
Loans and advances to customers	182,424,202	13,844,200	13,930	**196,282,332**
Investment securities	16,523,883	806,022	1,026,549	**18,356,454**
Securities pledged under repurchase agreements	8,092,013	–	–	**8,092,013**
Other financial assets	302,505	4,923	226,747	**534,175**
	249,806,761	**17,989,073**	**2,312,830**	**270,108,664**

	2017			
	Armenia	***Other non-OECD countries***	***OECD countries***	***Total***
Cash and cash equivalents	37,825,148	1,460,198	556,703	**39,842,049**
Trading securities	787,330	–	–	**787,330**
Amounts due from banks	9,502,670	285,730	757,955	**10,546,355**
Loans and advances to customers	142,405,903	6,205,348	16,556,249	**165,167,500**
Investment securities	22,146,887	–	1,011,471	**23,158,358**
Securities pledged under repurchase agreements	3,056,113	–	–	**3,056,113**
Other financial assets	509,445	265	225,351	**735,061**
	216,233,496	**7,951,541**	**19,107,729**	**243,292,766**

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Group calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia. As at 31 December, these ratios were as follows:

	Threshold	*2018, %*	*2017, %*
N21 “General Liquidity Ratio” (highly liquid assets / total assets)	min 15%	23.69	35.26
N22 “Current Liquidity Ratio” (highly liquid assets / liabilities payable on demand)	min 60%	81.83	102.49

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group’s financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. See Note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

	2018					
	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*	*Total*
Financial liabilities						
Amounts due to banks	12,493,396	1,287,043	127,441	–	72,563	**13,980,443**
Derivative liabilities	26,583	–	–	–	–	**26,583**
Amounts due to customers	77,767,987	16,269,442	77,640,309	24,265,421	819,953	**196,763,112**
Other borrowed funds	141,098	377,393	1,825,741	11,756,654	6,361,484	**20,462,370**
Debt securities issued	–	52,500	6,724,733	11,580,313	–	**18,357,546**
Subordinated debt	–	–	395,709	7,105,036	–	**7,500,745**
Total undiscounted financial liabilities	**90,429,064**	**17,986,378**	**86,713,933**	**54,707,424**	**7,254,000**	**257,090,799**
Commitments and contingent liabilities	**17,653,587**	**–**	**–**	**–**	**–**	**17,653,587**

	2017					
	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*	*Total*
Financial liabilities						
Amounts due to banks	13,463,293	–	1,674,272	–	72,615	**15,210,180**
Derivative liabilities	68,857	–	–	–	–	**68,857**
Amounts due to customers	73,352,138	11,248,147	65,922,616	28,109,919	564,589	**179,197,409**
Other borrowed funds	132,553	227,335	1,689,991	10,212,515	3,980,126	**16,242,520**
Debt securities issued	–	52,500	321,087	6,129,507	–	**6,503,094**
Subordinated debt	–	–	–	–	7,904,560	**7,904,560**
Total undiscounted financial liabilities	**87,016,841**	**11,527,982**	**69,607,966**	**44,451,941**	**12,521,890**	**225,126,620**
Commitments and contingent liabilities	**13,539,605**	**–**	**–**	**–**	**–**	**13,539,605**

(thousands of Armenian drams)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses.

Interest rate risk

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

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

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

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

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

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
AMD	1.6%	(48,646)	(701,721)
USD	1.3%	−	(230,585)

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
AMD	3.5%	106,414	1,535,014
USD	0.5%	−	88,686

(thousands of Armenian drams)

30. Risk management (continued)

Currency risk

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

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

	2018		***2017***	
	Change in currency rate in %	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
Currency				
USD	3.5%	12,064	3.5%	(23,270)
USD	(3.5%)	(12,064)	(3.5%)	23,270
EUR	8.0%	(4,847)	13.7%	1,535
EUR	(8.3%)	5,028	(6.3%)	(706)

Operational risk

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

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

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

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

The risk mitigation mechanisms for the process are:

- Regulation of all business processes by internal legal acts;
- Physical protection of the Group’s assets and critical documents (including loan contracts);
- Establishing and maintaining limits;
- Common preservation of property and records;
- Implementation and archiving of data journals;
- Implementation of double control mechanism in recording transactions.

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

The Group’s compliance with the standards is accompanied by the internal auditor’s periodic observations. The results of those observations are discussed by the Group’s management’s appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

(thousands of Armenian drams)

31. Fair value measurements

Fair value measurement procedures

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

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

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

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

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

Financial instruments that are not measured at fair value

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

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

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement procedures (continued)

	2017				
	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	151,021,736	**151,021,736**	**165,167,500**
Cash and cash equivalents	39,842,049	–	–	**39,842,049**	**39,842,049**
Amounts due from banks	–	–	10,546,355	**10,546,355**	**10,546,355**
Held to maturity investments	–	–	346,127	**346,127**	**346,140**
Other financial assets	–	–	735,061	**735,061**	**735,061**
Financial liabilities					
Amounts due to customers	–	–	173,914,157	**173,914,157**	**173,914,157**
Other borrowed funds	–	–	12,659,350	**12,659,350**	**12,659,350**
Amounts due to banks	–	–	15,173,467	**15,173,467**	**15,173,467**
Debt securities issued	–	5,952,200	–	**5,952,200**	**5,931,969**
Subordinated debt	–	–	5,854,396	**5,854,396**	**5,854,396**
Other financial liabilities	–	–	943,666	**943,666**	**943,666**

Loans and advances to customers

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

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

Financial instruments that are measured at fair value

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

	2017		
	Level 1	*Level 2*	*Total*
Financial assets			
Securities pledged under repurchase agreements	–	3,056,113	**3,056,113**
Investments available for sale	883,076	21,871,348	**22,754,424**
Trading securities	–	787,330	**787,330**
Total	**883,076**	**25,714,791**	**26,597,867**
Financial liabilities			
Derivative financial liabilities	–	68,857	**68,857**
Total	**–**	**68,857**	**68,857**
Net fair value	**883,076**	**25,645,934**	**26,529,010**

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

(thousands of Armenian drams)

31. Fair value measurements (continued)

Fair value measurement of non-financial assets and liabilities

	2018	
	Level 3	*Total*
Non financial assets		
Land and buildings	4,614,029	**4,614,029**
Total	**4,614,029**	**4,614,029**

	2017	
	Level 3	*Total*
Non financial assets		
Land and buildings	4,724,230	**4,724,230**
Total	**4,724,230**	**4,724,230**

Fair value measurements in Level 3

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

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

Non financial assets	*Land and buildings*	*Total*
Balance as at 1 January 2017	5,134,018	**5,134,018**
Purchases	103	**103**
Disposals	(212,886)	**(212,886)**
Depreciation charge	(197,005)	**(197,005)**
Net fair value at 31 December 2017	**4,724,230**	**4,724,230**

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

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

There was no revaluation of the land and buildings during 2018. The land and buildings were previously revalued on 31 December 2016.

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

(thousands of Armenian drams)

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

Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

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

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

As at 31 December 2018 the Group has securities sold under repurchase agreements amounted to AMD 8,092,013 thousand which were classified as measured at FVOCI and amortised cost (2017: AMD 3,056,113 thousand classified as available-for-sale investments.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the consolidated statement of financial position as at 31 December 2018 as amounts due to banks with carrying amount of AMD 7,879,585 thousand, (2017: AMD 2,900,619 thousand).

33. Offsetting of financial instruments

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

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

2017	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amount of financial assets recognised in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*		*Net amount*
				Financial instruments	*Non-cash collateral received*	
Financial assets						
Loans and advances to banks – reverse repo	7,025,413	–	**7,025,413**	–	(7,025,413)	–
Loans and advances to customers – reverse repo	4,820,511	–	**4,820,511**	–	(4,820,511)	–
Total	**11,845,924**	**–**	**11,845,924**	**–**	**(11,845,924)**	**–**
Financial liabilities						
Amounts due to banks – repo	2,900,619	–	**2,900,619**	(2,900,619)	–	–
Total	**2,900,619**	**–**	**2,900,619**	**(2,900,619)**	**–**	**–**

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 30 for the Group's contractual undiscounted repayment obligations.

	2018			*2017*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	40,470,858	–	**40,470,858**	39,842,049	–	**39,842,049**
Trading securities	7,125	1,153,220	**1,160,345**	14,713	772,617	**787,330**
Amounts due from banks	4,110,562	1,101,925	**5,212,487**	9,014,185	1,532,170	**10,546,355**
Loans and advances to customers	59,315,748	136,966,584	**196,282,332**	64,318,196	100,849,304	**165,167,500**
Investment securities	2,137,102	16,219,352	**18,356,454**	2,295,265	20,863,093	**23,158,358**
Investment securities pledged under repurchase agreements	8,092,013	–	**8,092,013**	3,056,113	–	**3,056,113**
Property, plant and equipment	–	6,739,038	**6,739,038**	–	6,115,287	**6,115,287**
Intangible assets	–	296,331	**296,331**	–	226,538	**226,538**
Repossessed assets	1,977,614	–	**1,977,614**	1,832,119	–	**1,832,119**
Other assets	2,504,264	27,642	**2,531,906**	1,982,559	21,645	**2,004,204**
Total	**118,615,286**	**162,504,092**	**281,119,378**	**122,355,199**	**130,380,654**	**252,735,853**
Liabilities						
Amounts due to banks	13,890,807	72,563	**13,963,370**	15,100,852	72,615	**15,173,467**
Derivative liabilities	26,583	–	**26,583**	68,857	–	**68,857**
Amounts due to customers	164,802,436	22,411,680	**187,214,116**	148,295,966	25,618,191	**173,914,157**
Other borrowed funds	1,404,832	14,279,581	**15,684,413**	1,964,472	10,694,878	**12,659,350**
Debt securities issued	6,047,694	10,605,750	**16,653,444**	90,969	5,841,000	**5,931,969**
Current income tax liabilities	199,430	–	**199,430**	609,855	–	**609,855**
Deferred income tax liabilities	–	938,233	**938,233**	–	1,210,763	**1,210,763**
Other liabilities	1,459,076	23,537	**1,482,613**	1,310,863	26,010	**1,336,873**
Provisions on commitments and contingencies	70,056	–	**70,056**	–	–	**–**
Subordinated debt	–	5,852,819	**5,852,819**	–	5,854,396	**5,854,396**
Total	**187,900,914**	**54,184,163**	**242,085,077**	**167,441,834**	**49,317,853**	**216,759,687**
Net position	**(69,285,628)**	**108,319,929**	**39,034,301**	**(45,086,635)**	**81,062,801**	**35,976,166**

The maturity analysis in the table above does not reflect the historical behavior and actual repayment pattern of term deposits. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The table below shows an analysis of assets and liabilities analysed according securities instant liquidity as at 31 December 2018.

(thousands of Armenian drams)

34. Maturity analysis of assets and liabilities (continued)

Highly liquid portion of investments at fair value through profit or loss and investments at fair value through other comprehensive income other than equity instruments are included in amounts due in the period “Demand and less than 1 month” as the Bank’s management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities. Securities at amortised cost state securities are classified as demand and less than 1 month considering the availability of repo agreements.

	31 December 2018								
	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*Subtotal less than 12 months*	*From 1 to 5 years*	*More than 5 years*	*Subtotal less over 12 months*	*No maturity*	*Total*
Cash and cash equivalents	40,470,858	–	–	**40,470,858**	–	–	**–**	–	**40,470,858**
Trading securities	383,618	603	–	**384,221**	135,570	640,554	**776,124**	–	**1,160,345**
Amounts due from banks	3,140,377	970,185	–	**4,110,562**	38,746	–	**38,746**	1,063,179	**5,212,487**
Loans and advances to customers	6,546,582	10,081,740	42,687,426	**59,315,748**	83,775,096	53,191,488	**136,966,584**	–	**196,282,332**
Investment securities	13,440,942	651,768	832,007	**14,924,717**	2,199,340	148,255	**2,347,595**	1,084,142	**18,356,454**
Securities pledged under repurchase agreements	8,092,013	–	–	**8,092,013**	–	–	**–**	–	**8,092,013**
Property, plant and equipment	–	–	–	**–**	–	–	**–**	6,739,038	**6,739,038**
Intangible assets	–	–	–	**–**	–	–	**–**	296,331	**296,331**
Repossessed assets	–	–	1,977,614	**1,977,614**	–	–	**–**	–	**1,977,614**
Other assets	2,314,307	100,554	89,403	**2,504,264**	144	25,633	**25,777**	1,865	**2,531,906**
Total assets	**74,388,697**	**11,804,850**	**45,586,450**	**131,779,997**	**86,148,896**	**54,005,930**	**140,154,826**	**9,184,555**	**281,119,378**
Liabilities									
Amounts due to banks	12,489,381	1,278,285	123,141	**13,890,807**	–	–	**–**	72,563	**13,963,370**
Derivative financial liabilities	26,583	–	–	**26,583**	–	–	**–**	–	**26,583**
Amounts due to customers	77,145,649	15,486,147	72,170,640	**164,802,436**	21,901,888	509,792	**22,411,680**	–	**187,214,116**
Other borrowed funds	123,917	285,292	995,623	**1,404,832**	8,798,188	5,481,393	**14,279,581**	–	**15,684,413**
Debt securities issued	–	43,439	6,004,255	**6,047,694**	10,605,750	–	**10,605,750**	–	**16,653,444**
Income tax liabilities	–	–	199,430	**199,430**	–	–	**–**	–	**199,430**
Deferred tax liabilities	–	–	–	**–**	938,233	–	**938,233**	–	**938,233**
Other liabilities	850,211	175,480	433,385	**1,459,076**	–	23,537	**23,537**	–	**1,482,613**
Other provisions	70,056	–	–	**70,056**	–	–	**–**	–	**70,056**
Subordinated debt	–	–	–	–	5,852,819	–	**5,852,819**	–	**5,852,819**
Total liabilities	**90,705,797**	**17,268,643**	**79,926,474**	**187,900,914**	**48,096,878**	**6,014,722**	**54,111,600**	**72,563**	**242,085,077**
Net position	**(16,317,100)**	**(5,463,793)**	**(34,340,024)**	**(56,120,917)**	**38,052,018**	**47,991,208**	**86,043,226**	**9,111,992**	**39,034,301**
Accumulated gap	**(16,317,100)**	**(21,780,893)**	**(56,120,917)**		**(18,068,899)**	**29,922,309**			

35. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of these consolidated financial statements, related parties include the Parent, entities under common control, members of Group’s Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

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

(thousands of Armenian drams)

35. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

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

	2018			*2017*		
	Parent	*Entities under common control*	*Key management personnel and their close family members*	*Parent*	*Entities under common control*	*Key management personnel and their close family members*
Consolidated statement of financial position						
Loans and advances to customers						
Loans outstanding at 1 January, gross	**19,037**	**27,463,688**	**395,002**	**4,811**	**28,951,581**	**177,661**
Loans issued during the year	130,714	23,934,804	848,528	92,282	26,081,083	823,174
Loan repayments during the year	(142,415)	(29,561,192)	(642,764)	(78,056)	(27,568,976)	(605,833)
Loans outstanding at 31 December, gross	**7,336**	**21,837,300**	**600,766**	**19,037**	**27,463,688**	**395,002**
Less: allowance for loan impairment	(73)	(218,373)	(6,008)	(190)	(274,637)	(3,950)
Loans outstanding as of 31 December, net	**7,263**	**21,618,927**	**594,758**	**18,847**	**27,189,051**	**391,052**
Amounts due to customers						
Deposits at 1 January	**367,619**	**37,441,903**	**409,070**	**348,105**	**38,802,129**	**167,545**
Deposits received during the year	1,137,797	611,888,652	3,689,233	1,022,935	622,429,078	3,968,001
Deposits repaid during the year	(1,291,577)	(603,311,199)	(3,534,159)	(1,003,421)	(623,789,304)	(3,726,476)
Deposits as of 31 December	**213,839**	**46,019,356**	**564,144**	**367,619**	**37,441,903**	**409,070**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	**–**	**5,854,396**	**–**	**–**	**7,598,818**	**–**
Subordinated debt repaid during the year	–	(5,498)	–	–	(1,748,435)	–
Net result from FX revaluation	–	3,920	–	–	4,013	–
Subordinated debt as of 31 December	**–**	**5,852,818**	**–**	**–**	**5,854,396**	**–**
Items not recognised in the consolidated statement of financial position						
Guarantees given	–	190,815	124,683	–	283,558	140,044
Consolidated statement of comprehensive income						
Interest income	–	1,479,467	30,627	–	2,227,176	13,510
Fee and commission income	770	26,092	779	702	24,965	660
Other income	1,384	47,280	1,198	1,300	61,251	910
Interest expense	(4,207)	(1,984,209)	(16,051)	(3,771)	(2,285,300)	(15,985)
Impairment charge	117	56,264	(2,058)	(142)	14,879	(2,173)
Other expenses	–	(45,563)	(29,886)	–	(43,109)	(28,601)

Compensation of key management personnel was comprised of the following:

	2018	*2017*
Salaries and other short-term benefits	608,794	494,746
Total key management personnel compensation	**608,794**	**494,746**

(thousands of Armenian drams)

36. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

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

Subsidiary	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*
2017				
"Converse Collection" LLC	100%	Yerevan	Armenia	Transportation of cash, cash equivalents and other asset

37. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2016	18, 20, 21	**–**	**9,096,208**	**7,598,818**	**16,695,026**
Proceeds from issue		5,848,861	6,240,921	–	**12,089,782**
Redemption		–	(2,703,308)	(1,453,077)	**(4,156,385)**
Foreign currency translation		7,176	(12,008)	4,013	**(819)**
Other		75,932	37,537	(295,358)	**(181,889)**
Carrying amount at 31 December 2017	18, 20, 21	**5,931,969**	**12,659,350**	**5,854,396**	**24,445,715**
Proceeds from issue		19,904,690	6,520,883	–	**26,425,573**
Redemption		(9,215,087)	(3,460,357)	–	**(12,675,444)**
Foreign currency translation		(87,353)	(29,749)	(4,226)	**(121,328)**
Other		119,225	(5,714)	2,649	**116,160**
Carrying amount at 31 December 2018	18, 20, 21	**16,653,444**	**15,684,413**	**5,852,819**	**38,190,676**

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

38. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2018 and 31 December 2017, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2018 and 31 December 2017.

(thousands of Armenian drams)

38. Capital adequacy (continued)

The following table shows the composition of capital position calculated in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2018 and 2017:

	2018	***2017***
Tier 1 capital	33,211,591	29,670,418
Tier 2 capital	10,764,991	11,210,469
Total capital	**43,976,582**	**40,880,887**
Risk-weighted assets	**269,190,735**	**223,220,237**
Capital adequacy ratio	**16.34%**	**18.31%**

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

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