

Financial Statements and Independent Auditor's Report

GLOBAL CREDIT universal credit organization CJSC

31 December 2018



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Independent auditor's report

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To the shareholders of GLOBAL CREDIT universal credit organization CJSC

Opinion

We have audited the financial statements of GLOBAL CREDIT universal credit organization CJSC (the “Company”), which comprise the statement of financial position as of 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

- First time adoption of IFRS 9

Refer to note **4.4** of the financial statements for a description of the accounting policies and to note **32.1** for an analysis of credit risk.

The International Accounting Standards Board (IASB) issued IFRS 9 – “Financial Instruments” which replaces

“IAS 39 – Financial Instruments”. The key changes arising from adoption of IFRS 9 are that the Company’s impairment losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Company’s financial assets and liabilities, which are detailed in Note 4.4 to the financial statements.

As described in the notes to the financial statements, the financial assets have been classified and the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to classify the financial assets as well as to determine the impairment reserve.

Key areas of judgment included: the assessment of the business model within which the assets are held, the assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Company’s expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following;

- We read the Company’s IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;
- We obtained an understanding and checked the Company’s business model assessment and the test on the contractual cash flows, which give rise to cash flows that are ‘solely payments of principal and interest’ [SPPI test] performed by the Company’s consultant; and
- We checked the appropriateness of the opening balance adjustments.

With respect to impairment methodology, our audit procedures comprised the following;

- We read the Company’s IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model;
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy;
- We checked the appropriateness of the Company’s determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;
- For a sample of exposures, we checked the appropriateness of the Company’s staging;
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Company and sensitivity of the provisions to changes in modeling assumptions;
- For forward looking assumptions used by the Company’s management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information;
- We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis;

- We checked the completeness of loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2018; We understood the theoretical soundness and tested the mathematical integrity of the Models;
- For data from external sources, we understood the process of choosing such data, its relevance for the Company, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model);
- We checked the appropriateness of the opening balance adjustments.

We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Gagik Gyulbudaghyan
Managing Partner

12 March 2018



Armen Hovhannisyan
Engagement Partner

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2018	2017
Interest and similar income	7	4,400,622	2,707,698
Interest and similar expense	7	(1,569,103)	(932,525)
Net interest income		<u>2,831,519</u>	<u>1,775,173</u>
Fee and commission income	8	55,671	34,378
Fee and commission expense	8	(44,152)	(28,342)
Net fee and commission income		<u>11,519</u>	<u>6,036</u>
Net trading income	9	7,261	8,510
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		26,933	N/A
Gains less losses on investments available for sale		N/A	18,397
Other income	10	349,772	201,414
Impairment losses	11	(1,808,504)	(824,128)
Staff costs	12	(386,454)	(298,140)
Other expenses	13	(412,511)	(285,345)
Profit before income tax		<u>619,535</u>	<u>601,917</u>
Income tax expense	14	(115,350)	(125,672)
Profit for the year		<u><u>504,185</u></u>	<u><u>476,245</u></u>
Other comprehensive income:			
<i>Items that will be reclassified subsequently to profit or loss</i>			
<i>Movement in fair value reserve (debt instruments)</i>			
Net unrealized gains from changes in fair value		155,256	N/A
Net gains realized to statement of profit or loss and other comprehensive income on disposal of FVOCI instruments		(25,593)	N/A
Net changes in allowance for expected credit losses of debt instruments at FVOCI		4,503	N/A
Income tax relating to components of other comprehensive income		(25,933)	N/A
Net gains on financial investments at fair value through other comprehensive income		<u>108,233</u>	<u>N/A</u>
<i>Movement in fair value reserve (available -for-sale)</i>			
Net unrealized gains from changes in fair value		N/A	23,736
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments		N/A	(16,415)
Income tax relating to components of other comprehensive income		N/A	(1,463)
Net gains on available-for-sale financial assets		<u>N/A</u>	<u>5,858</u>
Other comprehensive income for the year, net of tax		<u>108,233</u>	<u>5,858</u>
Total comprehensive income for the year		<u><u>612,418</u></u>	<u><u>482,103</u></u>

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 64.

Statement of financial position

In thousand Armenian drams

	Notes	31 December 2018	31 December 2017
<i>Assets</i>			
Cash and cash equivalents	15	108,279	213,634
Amounts due from financial institutions	16	1,499,983	-
<i>Investment securities</i>			
- Investments available for sale	17	N/A	370,317
- Investments available for sale pledged under repurchase agreements	17	N/A	3,018,562
*Investment securities at fair value through other comprehensive income	17	15,000	N/A
*Investment securities at fair value through other comprehensive income pledged under repurchase agreements	17	8,382,644	N/A
Loans and advances to customers	18	17,408,837	12,578,237
Property and equipment	19	78,226	107,886
Intangible assets	20	84,546	85,266
Repossessed collateral	21	190,415	155,142
Other assets	22	72,285	62,407
Total assets		27,840,215	16,591,451
<i>Liabilities and equity</i>			
<i>Liabilities</i>			
Loans and borrowings	23	23,991,737	12,938,601
Debt securities issued	24	1,480,188	1,482,211
Current income tax liabilities		78,126	28,045
Deferred income tax liabilities	14	1,570	27,590
Other liabilities	25	147,275	118,213
Total liabilities		25,698,896	14,594,660
<i>Equity</i>			
Share capital	26	1,500,000	1,500,000
Other reserves		126,005	14,731
Retained earnings		515,314	482,060
Total equity		2,141,319	1,996,791
Total liabilities and equity		27,840,215	16,591,451

The financial statements were approved on 12 March 2019 by:

Luiza Igraryan

Executive Director

Susanna Khachatryan

Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 64.

Statement of changes in equity

In thousand Armenian drams	Share capital	Fair value reserve	Retained earnings	Total
Balance As of 1 January 2017	1,500,000	8,873	315,815	1,824,688
Profit for the year	-	-	476,245	476,245
<i>Other comprehensive income:</i>				
Net unrealized gains from changes in fair value	-	23,736	-	23,736
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	-	(16,415)	-	(16,415)
Income tax relating to components of other comprehensive income	-	(1,463)	-	(1,463)
Total comprehensive income for the year	-	5,858	476,245	482,103
Dividends to shareholders	-	-	(310,000)	(310,000)
Total transactions with owners	-	-	(310,000)	(310,000)
Balance As of 31 December 2017	1,500,000	14,731	482,060	1,996,791
Impact of adopting IFRS 9 (note 6)		3,041	(67,180)	(64,139)
Restated balance at 1 January 2018	1,500,000	17,772	414,880	1,932,652
Profit for the year	-	-	504,185	504,185
<i>Other comprehensive income:</i>				
Net unrealized gains from changes in fair value	-	155,256	-	155,256
Net gains realized to statement of profit or loss and other comprehensive income on disposal of FVOCI instruments	-	(25,593)	-	(25,593)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	4,503	-	4,503
Income tax relating to components of other comprehensive income	-	(25,933)	-	(25,933)
<i>Total comprehensive income for the year</i>	-	108,233	504,185	612,418
Dividends to shareholders	-	-	(403,751)	(403,751)
<i>Total transactions with owners</i>	-	-	(403,751)	(403,751)
Balance as of 31 December 2018	1,500,000	126,005	515,314	2,141,319

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 64.

Statement of cash flows

In thousand Armenian drams

	<u>2018</u>	<u>2017</u>
<i>Cash flows from operating activities</i>		
Interest received	4,179,998	2,607,656
Interest paid	(1,557,341)	(905,742)
Fee and commission received	55,671	34,378
Fee and commission paid	(44,152)	(28,342)
Net gains from Investment securities	26,933	18,397
Net trade income	7,261	8,510
Other income	349,772	200,589
Payments of employees and behalf of them	(374,165)	(270,934)
Other expenses	(379,343)	(254,156)
Cash flows from operating activities before changes in operating assets and liabilities	<u>2,264,634</u>	<u>1,410,356</u>
<i>(Increase)/decrease in operating assets</i>		
Loans and advances to customers	(6,593,584)	(2,572,443)
Proceeds from reverse repurchase agreements	-	101,136
Other assets	(19,880)	(51,572)
<i>Increase/(decrease) in operating liabilities</i>		
Other liabilities	10,766	9,650
Net cash flow used in operating activities before income tax	<u>(4,338,064)</u>	<u>(1,102,873)</u>
Income tax paid	(101,187)	(74,440)
Net cash used in operating activities	<u>(4,439,251)</u>	<u>(1,177,313)</u>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and intangible assets	(5,923)	(78,278)
Loans to financial institutions	(450,416)	-
Sale of Investment securities	329,724	165,038
Sale of repossessed collateral	89,623	-
Acquisition of Investment securities	(6,263,847)	(3,194,725)
Net cash used in investing activities	<u>(6,300,839)</u>	<u>(3,107,965)</u>

Statement of cash flows (continued)

In thousand Armenian drams

	<u>2018</u>	<u>2017</u>
<i>Cash flow from financing activities</i>		
Proceeds from debt securities issued	708,171	783,860
Repayment of bonds issued	(710,831)	(486,864)
Loans and borrowings received	11,395,664	5,981,354
Loans and borrowings repayment	(352,110)	(1,962,876)
Dividends paid	(403,751)	(310,000)
Net cash from financing activities	<u>10,637,143</u>	<u>4,005,474</u>
Net decrease in cash and cash equivalents	<u>(102,947)</u>	<u>(279,804)</u>
Effect of changes in exchange rates on cash and cash equivalents	(1,447)	3,080
Effect of changes in allowance for expected credit losses of cash	(85)	-
Cash and cash equivalents as at the beginning of the year (note 6)	<u>212,758</u>	<u>490,358</u>
Cash and cash equivalents at the end of the year (note 15)	<u><u>108,279</u></u>	<u><u>213,634</u></u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 64.

Notes to the financial statements

1 Principal activities

“Global Credit” UCO CJSC (the “Company”) was established in 2010 as a result of merging of “Washington Capital” UCO CJSC and “Credit Union” UCO CJSC and is a closed joint stock company. The Company is regulated by the legislation of the Republic of Armenia (RA). The Company was registered on 26 October 2010 under license N 35, granted by the Central Bank of Armenia (the “CBA”).

The Company’s main activity is mortgage, business and consumer loan extension.

The Company’s office is located in Yerevan. The Company does not have branches. The registered office of the Company is located at: Sasna Tsrer 2, area 251, Yerevan, Republic of Armenia.

2 Armenian business environment

Armenia continues to undergo political and economic changes. The stability and development of the Armenian economy largely depends on these changes, as well as developments in the Eurasian Economic Union with which the integration of the Armenian economy continues.

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

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Company 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”).

The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Company’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income (before 1 January 2018 available for sale assets). Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company’s functional currency and the Company’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Company 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 in note 6.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Company's classification of its financial assets and liabilities is explained in note 4.4.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 6.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Under IFRS 9, no impairment loss is recognised on equity investments. 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 Company's impairment assessment are disclosed in note 32.1.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 6.

IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Company has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 6, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 32.1.2.

Other new standards and amendments described below and applied for the first time in 2018, did not have a material impact on the annual financial statements of the Company.

- *"Revenue from contracts with customers" (IFRS 15) and "Revenue from contracts with customer", Clarifications (Amendment to IFRS 15)*
- *"Share based payments" classification and measurement of share-based payment transactions (Amendment to IFRS 2)*
- *Annual Improvements to IFRSs 2014-2017 Cycle – Amendments to IFRS 1 and IAS 28*
- *Amendments to IAS 40 Investment Property: Transfers of Investment Property*

- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Amendments, they are presented below.

IFRS 16 Leases

IFRS 16 will replace IAS 17 "Leases" and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Company have decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Company:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Company has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset
- believes that the most significant impact will be that the Company will need to recognise a right of use asset and a lease liability for the office and production buildings currently treated as operating leases.
- concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position

The Company is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the Company need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Company are currently assessing the impact of applying these other transitional reliefs.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the Company does not expect any changes for leases where they are acting as a lessor.

Other standards

- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019),
- Amendment to IFRS 9 "Financial instruments"-Prepayment features with negative compensation (effective from 1 January 2019),
- Amendment to IAS 28, "Investments in associates" Long term interests in associates and joint ventures (effective from 1 January 2019),
- Amendment to IAS 19 "Employee benefits" – Plan amendment, curtailment or settlement (effective from 1 January 2019),
- Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to note 4.4.6.

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 recognized when the Company's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities at fair value through other comprehensive income (as available for sale before 01 January 2018) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. 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. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI (as available-for-sale equity instruments before 1 January 2018) are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Company in the preparation of the financial statements are as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
AMD/1 US Dollar	483.75	484.10
AMD/1 EUR	553.65	580.10

4.3 Taxation

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

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 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 Company's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognises loans and advances, deposits, debt securities issued and liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- 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.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- 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.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial assets – Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- available-for-sale; and
- at FVTPL, and within this category as:

- held for trading; or
- designated as at FVTPL.

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value.

Policy applicable from 1 January 2018

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Policy applicable before 1 January 2018

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements 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 realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4.4.6 Impairment

Policy applicable from 1 January 2018

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments and financial guarantee contracts

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company 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. This is further explained in note 32.1.2.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined 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 PD, the EAD and the LGD are further explained in note 32.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more

events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position.

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
 - When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
 - where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
 - The Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Assets carried at amortized cost

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter Bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an instrument’s fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Impairment allowances of financial assets have been identified in the financial statements on the basis of existing economic conditions. Company is not able to predict how conditions may change in Armenia, and what

impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and accounts in other banks.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Loans and advances

Loans and advances are financial assets with fixed or determinable payments, which arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.8 Investment securities

Policy applicable from 1 January 2018

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted as available-for-sale.

Available-for-sale financial assets

Assets available for sale represent debt and equity assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss and other comprehensive income. However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.9 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the 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 financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the 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.

4.10 Leases

Operating - Company as lessee

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

4.11 Property and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. 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.

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 (%)
Computers	3	33.33
Vehicles	8	20
Other fixed assets	1-8	20-100

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 not depreciated.

Repairs and maintenance are charged to the income statement 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.

4.12 Goodwill

Goodwill acquired as a result of business combinations is initially recorded in an amount equal to the excess of the transferred consideration over the net identifiable acquired assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate a possible impairment of the carrying amount.

With the aim of valuation for impairment, goodwill acquired in a business combination is distributed between the cash-generating groups or cash-generating units since the date of acquisition that are expected to receive gains as a result of business combination. Each cash-generating unit or group of cash-generating units to which the goodwill relates:

- represent the lowest of administrative unit in the group from the viewpoint of goodwill analysis for the purpose of internal management.
- the entity shall not exceed the operating segments definition in accordance with IFRS 8 "Operating Segments".

Goodwill impairment is measured on the basis of the recoverable amount of the cash-generating unit (or cash-generating unit group). Impairment losses are recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

4.13 Intangible assets

Intangible assets include computer software, licences 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 13 to 15 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.

4.14 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.

4.15 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, debt securities issued 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 statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.16 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

4.17 Provisions

Provisions are recognised when the Company 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.

4.18 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.

Retained earnings

Retained earnings include retained earnings of current and previous periods and general reserve.

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 financial statements are authorised for issue.

Fair value reserve for debt investments (Available-for-sale in 2017)

This reserve records fair value changes in debt investments at fair value through other comprehensive income.

5 Critical accounting estimates and judgements

The preparation of 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 financial statements are presented below:

Business models and SPPI

The Company assesses the business model within which the assets are held and assesses whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

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 (refer to note 29).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 28).

Impairment of financial instruments

The Company assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 32.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 27.

Goodwill impairment

The Company assesses goodwill for each reporting date to determine whether objective evidence of impairment exists. Goodwill impairment is measured on the basis of the recoverable amount of cash-generating units.

6 Transition disclosure

The following set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

In thousand Armenian drams

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<i>Financial assets</i>				
Cash and cash equivalents	Loans and receivables	Amortised cost	213,634	212,758
Investment securities	Available for sale	FVOCI	370,317	370,317
Debt investment securities pledged under repurchase agreements	Available for sale	FVOCI	3,018,562	3,018,562
Loans and advances to customers	Loans and receivables	Amortised cost	12,578,237	12,513,726
Other assets- other financial assets	Loans and receivables	Amortised cost	29,209	23,612
Total financial assets			<u>16,209,959</u>	<u>16,138,975</u>
<i>Financial liabilities</i>				
Loans and borrowings	Amortised cost	Amortised cost	12,938,601	12,938,601
Debt securities issued	Amortised cost	Amortised cost	1,482,211	1,482,211
Other liabilities	Amortised cost	Amortised cost	105,966	105,966
Total financial liabilities			<u>14,526,778</u>	<u>14,526,778</u>

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

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement /ECL/	Remeasurement /Other/	IFRS 9 carrying amount 1 January 2018
<i>Financial assets</i>					
<i>Amortised cost</i>					
<i>Cash and cash equivalents</i>					
Opening balance	213,634				
Remeasurement		-	(876)	-	
Closing balance					212,758
<i>Loans and advances to customers</i>					
Opening balance	12,578,237				
Remeasurement		-	(64,511)	-	
Closing balance					12,513,726
<i>Other assets- other financial assets</i>					
Opening balance	29,209				
Remeasurement		-	(5,597)	-	
Closing balance					23,612
Total amortised cost	12,821,080	-	(70,984)	-	12,750,096
<i>Available-for-sale</i>					
<i>Investment securities</i>					
Opening balance	370,317				
Remeasurement			N/A		
Closing balance					370,317
<i>Investment securities – debt pledged under repurchase agreements</i>					
Opening balance	3,018,562				
Remeasurement			N/A		
Closing balance					3,018,562
Total FVOCI	3,388,879	-	-	-	3,388,879
<i>Financial liabilities</i>					
<i>Amortised cost</i>					
Amounts due to CBA	12,938,601	-	-	-	12,938,601
Debt securities issued	1,482,211	-	-	-	1,482,211
Other liabilities	105,966	-	-	-	105,966
Total amortised cost	14,526,778	-	-	-	14,526,778

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

In thousand Armenian drams

**Reserves and
retained earnings**

Fair value reserve

Closing balance under IAS 39 (31 December 2017)	14,731
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	3,041
Opening balance under IFRS 9 (1 January 2018)	17,772

Retained earnings

Closing balance under IAS 39 (31 December 2017)	482,060
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(83,215)
Deferred tax in relation to the above	16,035
Opening balance under IFRS 9 (1 January 2018)	414,880

Total change in equity due to adopting IFRS 9	(64,139)
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The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financial guarantee contracts as of 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

In thousand Armenian drams

	Loan loss provision under IAS 39 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
<i>Impairment allowance for</i>			
Cash and cash equivalents	-	876	876
Loans and advances to customers per IAS 39/financial assets at amortised cost under IFRS 9	424,692	64,511	489,203
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	3,041	3,041
Other assets	3,310	5,597	8,907
	428,002	74,025	502,027
Financial guarantee contracts issued	-	9,190	9,190
Total impairment allowance	428,002	83,215	511,217

7 Interest and similar income and expense

In thousand Armenian drams	<u>2018</u>	<u>2017</u>
Loans and advances to customers	3,711,491	2,530,830
Financial assets available-for-sale	677,548	113,671
Reverse repurchase transactions	6,151	1,919
Interest income from term deposits	5,178	-
Cash and cash equivalents	254	139
Interest accrued on individually impaired financial assets	-	61,139
Total interest and similar income	<u>4,400,622</u>	<u>2,707,698</u>
Loans and borrowings	1,199,773	790,546
Repurchase transactions	240,057	23,790
Debt securities issued	129,273	118,189
Total interest and similar expense	<u>1,569,103</u>	<u>932,525</u>

8 Fee and commission income and expense

In thousand Armenian drams	<u>2018</u>	<u>2017</u>
Cash operations	45,135	14,749
Guarantees	7,150	7,150
Insurance agent activity	2,589	7,562
Factoring	729	4,692
Other fees and commissions	68	225
Total fee and commission income	<u>55,671</u>	<u>34,378</u>
Payment and settlement services	24,748	19,714
Bank transactions	9,804	3,628
Issuing bonds	9,600	5,000
Total fee and commission expense	<u>44,152</u>	<u>28,342</u>

9 Net trading income

In thousand Armenian drams	<u>2018</u>	<u>2017</u>
Gains less losses from trading in foreign currencies	7,261	8,510
Total net trading income	<u>7,261</u>	<u>8,510</u>

10 Other income

In thousand Armenian drams	<u>2018</u>	<u>2017</u>
Fines and penalties received	343,945	198,395
Gains less losses from sale of other assets	846	-
Gains less losses from foreign exchange translation of non-trading assets	-	825
Other income	4,981	2,194
Total other income	<u>349,772</u>	<u>201,414</u>

11 Impairment losses/(reversal)

2018 In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total 2018	Total 2017
Cash and cash equivalents	15	85	-	-	85	-
Amounts due from other financial institutions	16	5,454	-	-	5,454	-
Investment securities measured at amortised cost	17	4,503	-	-	4,503	-
Loans and advances to customers	18	156,330	265,700	1,375,561	1,797,591	811,462
Other assets	22	(5,067)	-	9,488	4,421	12,666
Financial guarantees	27	(3,550)	-	-	(3,550)	-
Total impairment losses		<u>157,755</u>	<u>265,700</u>	<u>1,385,049</u>	<u>1,808,504</u>	<u>824,128</u>

12 Staff costs

In thousand Armenian drams	<u>2018</u>	<u>2017</u>
Compensations of employees, related taxes included	383,196	297,677
Staff training costs	2,266	402
Other staff costs	992	61
Total staff costs	<u>386,454</u>	<u>298,140</u>

13 Other expenses

In thousand Armenian drams	2018	2017
Advertising costs	67,202	58,833
Lease	55,320	31,180
Loan collection service	52,436	30,691
Taxes, other than income tax, duties	45,617	27,552
Depreciation of PPE and amortization of intangible assets	36,303	23,455
Consulting and other services	35,322	28,445
Office supplies	29,996	25,672
Loan repayment costs	22,368	14,505
Financial mediator fees	11,668	8,455
Fixed assets maintenance	10,876	3,685
Representative expenses	4,316	5,201
Business trip expenses	3,744	2,467
Foreign currency translation net loss of non-trading assets	3,135	-
Goodwill impairment	-	7,734
Other expenses	34,208	17,470
Total other expense	<u>412,511</u>	<u>285,345</u>

14 Income tax expense

In thousand Armenian drams	2018	2017
Current tax expense	161,700	94,229
Adjustments of current income tax of previous years	(10,432)	-
Deferred tax	(35,918)	31,443
Total income tax expense	<u>115,350</u>	<u>125,672</u>

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:

In thousand Armenian drams	2018	Effective rate (%)	2017	Effective rate (%)
Profit before tax	619,535		601,917	
Income tax at the rate of 20%	123,907	20	120,383	20
Non-deductible expenses	1,248	-	10,598	2
Foreign exchange (gains)/losses	627	-	(165)	-
Effect of the unrecognized deferred tax asset from the accumulated tax losses	-	-	(5,144)	(1)
Adjustments of current tax for prior years	(10,432)	(2)	-	-
Income tax expense	<u>115,350</u>	<u>18</u>	<u>125,672</u>	<u>21</u>

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2017	Impact of adopting IFRS 9	01 January 2018	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2018
Cash and cash equivalents	-	175	175	(175)	-	-
Amounts due from financial institutions	-	-	-	70	-	70
Loans and advances to customers	-	12,903	12,903	(1,400)	-	11,503
Loans and borrowings	229	-	229	2,202	-	2,431
Property and equipment	-	-	-	2,151	-	2,151
Other liabilities	9,376	1,838	11,214	2,087	-	13,301
Other assets	-	1,119	1,119	(1,119)	-	-
Gross deferred tax asset	<u>9,605</u>	<u>16,035</u>	<u>25,640</u>	<u>3,816</u>	<u>-</u>	<u>29,456</u>
Cash and cash equivalents	-	-	-	(11)	-	(11)
Loans and advances to customers	(29,759)	-	(29,759)	29,759	-	-
Investments in securities	(7,150)	-	(7,150)	3,468	(25,933)	(29,615)
Other assets	(286)	-	(286)	(1,114)	-	(1,400)
Total deferred tax liability	<u>(37,195)</u>	<u>-</u>	<u>(37,195)</u>	<u>32,102</u>	<u>(25,933)</u>	<u>(31,026)</u>
Net deferred tax liability	<u>(27,590)</u>	<u>16,035</u>	<u>(11,555)</u>	<u>35,918</u>	<u>(25,933)</u>	<u>(1,570)</u>

In thousand Armenian drams	31 December 2016 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2017
Loans and advances to customers	9,380	(9,380)	-	-
Loans and borrowings	-	229	-	229
Other liabilities	4,279	5,097	-	9,376
Total deferred tax assets	13,659	(4,054)	-	9,605
Loans and advances to customers	-	(29,759)	-	(29,759)
Investments in securities	(5,687)		(1,463)	(7,150)
Other assets	(1,422)	1,136	-	(286)
Loans and borrowings	(1,234)	1,234	-	-
Total deferred tax liability	(8,343)	(27,389)	(1,463)	(37,195)
Net deferred tax asset/(liability)	5,316	(31,443)	(1,463)	(27,590)

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2018	31 December 2017
Cash on hand	8,472	148,528
Current accounts with the banks	100,768	65,106
	109,240	213,634
Less loss allowance	(961)	-
Total cash and cash equivalents	108,279	213,634

As of 31 December 2018 the amounts of correspondent accounts in total amount of AMD 74,579 thousand (74%) (2017: AMD 37,399 thousand (57%), one) were due from two commercial banks, which represent significant concentration.

Non-cash transactions performed during 2018 are represented by repayment of AMD 121,971 thousand loan by repossessed collateral (2017: AMD 155,142 thousand).

An analysis of changes in the ECLs on cash and cash equivalents as follows:

In thousand Armenian drams	31 December 2018 12-month ECL	31 December 2017 Total
<i>Cash and cash equivalents</i>		
ECL allowance as at 1 January 2018	876	-
Net remeasurement of loss allowance	85	-
Balance at 31 December	961	-

16 Amounts due from other financial institutions

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Reverse repurchase agreements	1,055,021	-
Loans to other financial institutions	450,416	-
	<u>1,505,437</u>	<u>-</u>
Less loss allowance	(5,454)	-
	<u>(5,454)</u>	<u>-</u>
Total amounts due from other financial institutions	<u><u>1,499,983</u></u>	<u><u>-</u></u>

Loans to other financial institutions include one short-term loan to related party (2017 nil).

An analysis of changes in the ECLs on amount due from other financial institutions as follows:

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>12-month ECL</u>	<u>Total</u>
<i>Amount due from other financial institutions</i>		
ECL allowance as at 1 January 2018	-	-
Net remeasurement of loss allowance	5,454	-
Balance at 31 December	<u>5,454</u>	<u>-</u>

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2018 are presented as follows:

In thousand Armenian drams	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>	<u>Fair value of collateral</u>	<u>Carrying value of loans</u>
RA Government bonds	1,059,980	1,055,021	-	-
Total assets pledged and loans under reverse repurchase agreements	<u>1,059,980</u>	<u>1,055,021</u>	<u>-</u>	<u>-</u>

17 Investment securities

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Investment securities</i>		
Investment securities designated as at FVOCI – equity instruments	15,000	N/A
Available-for-sale investment securities – debt instruments	N/A	360,317
available-for-sale investment securities – equity instruments	N/A	10,000
Total investment securities measured at FVOCI (2017 Available-for-sale)	<u>15,000</u>	<u>370,317</u>
Debt investment securities measured at FVOCI (2017 available-for-sale) pledged under repurchase agreements	8,382,644	3,018,562
Total investment securities measured at FVOCI (2017 available-for-sale) pledged under repurchase agreements	<u>8,382,644</u>	<u>3,018,562</u>

An analysis of changes in the ECLs on debt investment securities measured at FVOCI, including pledged under repurchase agreements as follow:

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>12-month ECL</u>	<u>Total</u>
ECL allowance as at 1 January 2018	3,041	-
Net remeasurement of loss allowance	4,503	-
Balance at 31 December	<u>7,544</u>	<u>-</u>

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI (2017: available-for-sale) is their fair value.

All debt securities have fixed coupons.

Investment securities measured at FVOCI (2017: available-for-sale) by effective interest rates and maturity date comprise:

In thousand Armenian drams	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>%</u>	<u>Maturity</u>	<u>%</u>	<u>Maturity</u>
RA Government bonds	9.3-11.8%	2019-2047	9.7-14.4%	2018-2047

Unlisted equity investments consist of the Company's investments in "Coding Pro" CJSC and "AR MAGIC" CJSC, "Audio Guide" CJSC (the investment is 9,99% each).

18 Loans and advances to customers

In thousand Armenian drams	<u>31 December 2018</u>			<u>31 December 2017</u>		
	<u>Gross carrying amount</u>	<u>ECL allowance</u>	<u>Carrying amount</u>	<u>Gross carrying amount</u>	<u>Impairment allowance</u>	<u>Carrying amount</u>
<i>Mortgage and consumer lending</i>						
Mortgage	6,198,194	(5,314)	6,192,880	6,169,604	(76,274)	6,093,330
Consumer lending	1,403,186	(305,972)	1,097,214	1,947,267	(128,343)	1,818,924
Auto loans	6,361,054	(516,442)	5,844,612	828,244	(11,150)	817,094
<i>Commercial lending</i>						
Agriculture	1,811,235	(69,053)	1,742,182	1,547,046	(57,642)	1,489,404
Trade	1,382,172	(40,797)	1,341,375	1,321,977	(13,220)	1,308,757
Industry	663,521	(17,630)	645,891	451,658	(4,228)	447,430
Other	565,690	(21,007)	544,683	737,133	(133,835)	603,298
Total	<u>18,385,052</u>	<u>(976,215)</u>	<u>17,408,837</u>	<u>13,002,929</u>	<u>(424,692)</u>	<u>12,578,237</u>

The ECL allowance in these tables includes ECL on loan commitments for products such as overdrafts, because the Company cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

During the year ended 31 December 2018 the Company obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 121,971 thousand (2017: AMD 155,142 thousand). The Company is intended to sell these assets in a short period (refer to note 21).

As of 31 December 2018 the weighted average effective interest rate on loans and advances to customers is 44.2% for loans in AMD (2017: 41.1%) and 18.1% for loans in USD (2017: 22.4 %).

As of 31 December 2018 the Company's right of demand on loans to customers in the amount of AMD 6,390,713 thousand (2017: AMD 5,619,339 thousand) were pledged as collateral for loans and borrowings in the amount of AMD 6,443,917 thousand (2017: AMD 5,770,140 thousand).

As of 31 December 2018 there are one borrower whose loans provided by the Company with the loan balance of AMD 233,242 thousand exceed 10% of equity (2017: nil).

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows. The policies on whether ECL allowances are calculated on an individual or collective basis.

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Mortgage and consumer lending</i>				
ECL allowance as at 1 January 2018	81,332	73,197	164,132	318,661
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	16,724	(16,724)	-	-
Transfer to Lifetime ECL not credit-impaired	(341)	341	-	-
Transfer to Lifetime ECL credit-impaired	(20,410)	(168,127)	188,537	-
Net remeasurement of loss allowance	154,184	266,541	1,203,912	1,624,637
Recoveries	-	-	216,227	216,227
Amounts written off during the year	-	-	(1,331,797)	(1,331,797)
Balance at 31 December	<u>231,489</u>	<u>155,228</u>	<u>441,011</u>	<u>827,728</u>

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Commercial lending</i>				
ECL allowance as at 1 January 2018	73,204	53,217	44,121	170,542
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	4,438	(3,184)	(1,254)	-
Transfer to Lifetime ECL not credit-impaired	(543)	543	-	-
Transfer to Lifetime ECL credit-impaired	(5,008)	(43,272)	48,280	-
Net remeasurement of loss allowance	2,146	(841)	171,649	172,954
Recoveries	-	-	76,665	76,665
Amounts written off during the year	-	-	(271,674)	(271,674)
Balance at 31 December	<u>74,237</u>	<u>6,463</u>	<u>67,787</u>	<u>148,487</u>

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and deterioration in economic conditions. Further analysis of economic factors is outlined in note 32.1

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to 31 December 2017 is, as follows:

In thousand Armenian drams	2017		
	Mortgage and consumer lending	Commercial lending	Total
At 1 January 2017	171,107	109,830	280,937
Charge for the year	391,181	420,281	811,462
Amounts written off	(544,781)	(462,018)	(1,006,799)
Recoveries	198,260	140,832	339,092
At 31 December 2017	<u>215,767</u>	<u>208,925</u>	<u>424,692</u>
Individual impairment	41,945	121,073	163,018
Collective impairment	173,822	87,852	261,674
	<u>215,767</u>	<u>208,925</u>	<u>424,692</u>
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>93,147</u>	<u>254,238</u>	<u>347,385</u>

19 Property and equipment

In thousand Armenian drams	Computer equipment	Vehicles	Office equipment	Total
<i>Cost</i>				
at 1 January 2017	32,615	11,400	68,115	112,130
Additions	22,163	-	52,980	75,143
At 31 December 2017	<u>54,778</u>	<u>11,400</u>	<u>121,095</u>	<u>187,273</u>
Additions	3,731	-	1,287	5,018
At 31 December 2018	<u>58,509</u>	<u>11,400</u>	<u>122,382</u>	<u>192,291</u>
<i>Accumulated depreciation</i>				
At 1 January 2017	23,253	8,383	25,688	57,324
Expenses for the year	5,931	1,578	14,554	22,063
At 31 December 2017	<u>29,184</u>	<u>9,961</u>	<u>40,242</u>	<u>79,387</u>
Expenses for the year	9,992	1,439	23,247	34,678
At 31 December 2018	<u>39,176</u>	<u>11,400</u>	<u>63,489</u>	<u>114,065</u>
<i>Carrying amount</i>				
At 31 December 2018	<u>19,333</u>	<u>-</u>	<u>58,893</u>	<u>78,226</u>
At 31 December 2017	<u>25,594</u>	<u>1,439</u>	<u>80,853</u>	<u>107,886</u>

Fully depreciated items

As of 31 December 2018 fixed assets included fully depreciated assets in amount of AMD 28,734 thousand (2017: AMD 17,548 thousand).

Restrictions on title of fixed assets

As of 31 December 2018, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

20 Intangible assets

In thousand Armenian drams	Acquired software licenses	Goodwill	Total
<i>Cost</i>			
At 1 January 2017	19,336	77,336	96,672
Additions	3,135	-	3,135
Impairment	-	(7,734)	(7,734)
At 31 December 2017	22,471	69,602	92,073
Additions	905	-	905
At 31 December 2018	23,376	69,602	92,978
<i>Accumulated amortization</i>			
At 1 January 2017	5,415	-	5,415
Amortisation charge	1,392	-	1,392
At 31 December 2017	6,807	-	6,807
Amortisation charge	1,625	-	1,625
At 31 December 2018	8,432	-	8,432
<i>Carrying amount</i>			
At 31 December 2018	14,944	69,602	84,546
At 31 December 2017	15,664	69,602	85,266

As of 31 December 2018, the Company does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

21 Repossessed collateral

In thousand Armenian drams

	31 December 2018	31 December 2017
Real estate	190,415	155,142
	190,415	155,142

As of the date of repossession the collateral, it is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company 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.

22 Other assets

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Receivables and other proceeds	62,846	32,519
Less loss allowance	(3,840)	(3,310)
Total other financial assets	<u>59,006</u>	<u>29,209</u>
Prepayments	12,547	32,747
Other assets	732	451
Total non-financial assets	<u>13,279</u>	<u>33,198</u>
Total other assets	<u>72,285</u>	<u>62,407</u>

An analysis of changes in the ECLs on other financial as follow:

In thousand Armenian drams	<u>Total ECL/impairment</u>
Other financial assets	
impairment allowance as at 01 January 2017	-
Charge for the year	12,666
Amounts written off	(9,356)
Balance at 31 December 2017	<u>3,310</u>
Correcting opening balance effect of IFRS 9 provision	5,597
ECL allowance as at 1 January 2018	<u>8,907</u>
Net remeasurement of loss allowance	4,421
Net write-off	(9,488)
Balance at 31 December	<u>3,840</u>

23 Loans and borrowings

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Loans from the Central Bank of Armenia	76,145	67,195
Loans from refinancing credit organizations	4,982,842	4,300,856
Bank loans under repurchase agreements (Note 17)	7,851,490	2,839,416
Bank loans and credit lines	6,473,387	1,529,733
Loans from RA Government through international programs	1,270,328	1,350,164
Borrowings from commercial and non-commercial organizations	2,536,768	2,049,619
Borrowings from shareholders	800,777	801,618
Total amounts due to financial institutions	<u>23,991,737</u>	<u>12,938,601</u>

As of 31 December 2018 the weighted average effective interest rate for loans and borrowings in AMD was 8.3% (2017: 8.6%) and 9.0% (2017: 8.7%) for loans and borrowing in USD.

As of 31 December 2018 the Company has loans and borrowings from eleven organizations and one individual (2017: eight organizations and one individual), whose loan and borrowings balances exceed 20% of equity. The total amount of such loans as of 31 December 2018 is AMD 22,376,286 thousand (2017: AMD 9,792,245 thousand).

The Company's current accounts turnover and the shareholders' guarantees are collateralized for the Company loans and credit lines.

As of 31 December 2018 the Company's right of demand on loans to customers in the amount of AMD 6,390,713 thousand (2017: AMD 5,619,339 thousand) were pledged as collateral for loans and borrowings in the amount of AMD 6,443,917 thousand (2017: AMD 5,770,140 thousand).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: either).

24 Debt securities issued

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Bonds	1,480,188	1,482,211
Total debt securities issued	<u>1,480,188</u>	<u>1,482,211</u>

As of 31 December 2018 bonds issued at the nominal value of AMD 1,467,500 thousand (2017: AMD 1,468,200 thousand) are listed in "NASDAQ OMX Armenia".

As of 31 December 2018 the average effective interest rates on debt securities issued was 10.2% for securities in AMD (2017: 11.9%) and 8.2% for securities in USD (2017: 8.2%).

The Company has not repurchased any of its own debt securities during the year (2017: either).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: nil).

25 Other liabilities

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Accounts payables	32,665	32,240
Due to personnel	63,550	51,261
Subsidized interests	32,768	22,465
Total other financial liabilities	<u>128,983</u>	<u>105,966</u>
ECL for guarantee	5,640	-
Tax payable, other than income tax	12,652	12,247
Total other non-financial liabilities	<u>18,292</u>	<u>12,247</u>
Total other liabilities	<u>147,275</u>	<u>118,213</u>

26 Equity

As of 31 December 2018 the Company's registered and paid-in share capital was AMD 1,500,000 thousand. In accordance with the Company's statutes, the share capital consists of 1,500,000 ordinary shares, all of which have a par value of AMD 1,000 each.

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

In thousand Armenian drams	<u>Paid-in share capital</u>	<u>% of total paid-in capital</u>
Gagik Vardanyan	502,949	33.53
Eduard Marutyan	499,971	33.33
Arayik Karapetyan	421,779	28.12
Karen Darbinyan	75,301	5.02
	<u>1,500,000</u>	<u>100</u>

As of 31 December 2018, the Company did not possess any of its own shares.

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 Company.

At the Shareholders' Meeting in April 2018, the Company declared dividends in respect of the year ended 31 December 2017, totaling AMD 403,751 thousand.

27 Contingent liabilities and commitments

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 Company 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 Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

Therefore, the Company has not made any respective provision related to such tax and legal matters.

Loan commitment and financial guarantee

In the normal course of business, the Company 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 statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Undrawn loan commitments	73,991	38,795
Guarantees	400,000	650,000
	<u>473,991</u>	<u>688,795</u>

An analysis of changes in the ECLs on financial guarantee as follow: An analysis of changes in the ECLs on loan commitment includes in note 18.

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>12-month ECL</u>	<u>Total</u>
<i>Financial guarantees</i>		
ECL allowance as at 1 January 2018	9,190	-
Net remeasurement of ECL allowance	(3,550)	-
Balance at 31 December	<u>5,640</u>	<u>-</u>

Liabilities arising from financial guarantees are included within provisions (refer to note 25).

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into commercial lease agreements for office equipment, central office and branch facilities.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Not later than 1 year	16,596	9,354
Total operating lease commitments	<u>16,596</u>	<u>9,354</u>

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

The Company has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Armenia at present.

28 Transactions with related parties

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 the present financial statements, related parties include shareholders, members of Company's Management as well as other persons and enterprises related with and controlled by them respectively.

The Company does not have ultimate controlling party.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2018		2017	
	Shareholders and parties related with them	Key man- agement personnel and parties related with them	Shareholders and parties related with them	Key man- agement personnel and parties related with them
<i>Statement of financial position</i>				
<i>Proceeds on reverse repurchase agreements</i>				
At 1 January	-	-	101,136	-
Repayments during the year	3,671,876	-	37,074	-
Agreements signed during the year	(2,616,855)	-	(138,210)	-
At 31 December	1,055,021	-	-	-
Less allowance for loan impairment	(950)	-	-	-
Loans outstanding at 31 December	1,054,071	-	-	-
<i>Loans to other financial institutions</i>				
Loans outstanding at 1 January gross	-	-	-	-
Loans issued during the year	450,416	-	-	-
Loan repayments during the year	-	-	-	-
Loans outstanding at 31 December, gross	450,416	-	-	-
Less allowance for loan impairment	(4,504)	-	-	-
Loans outstanding at 31 December	445,912	-	-	-
<i>Loans and advances to customers</i>				
Loans outstanding at 1 January gross	50,290	48,427	161,270	42,871
Loans issued during the year	-	66,730	627,281	16,695
Loan repayments during the year	(19,390)	(15,084)	(738,261)	(11,139)
Loans outstanding at 31 December, gross	30,900	100,073	50,290	48,427
Less allowance for loan impairment	(87)	(280)	(503)	(485)
Loans outstanding at 31 December	30,813	99,793	49,787	47,942
<i>Loans and borrowings</i>				
At 1 January	801,618	-	932,038	-
Received during the year	406,583	-	671,578	-
Repaid during the year	(407,423)	-	(801,998)	-
At 31 December	800,778	-	801,618	-
<i>Advances issued</i>				
	-	-	30,000	-

In thousand Armenian drams	2018		2017	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
<i>Statement of profit or loss and other comprehensive income</i>				
Interest income on loans	3,735	9,165	18,125	5,696
Interest income on reverse repurchase agreements	6,151	-	1,919	-
Impairment (charge)/reversal	(5,038)	205	1,110	(56)
Interest expense on borrowings	(87,902)	-	(87,808)	-
Lease expenses	(55,320)	-	(31,180)	-
Other expenses	(16,976)	-	(8,062)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2018	2017
Salaries and bonuses	115,796	72,226
Total key management compensation	115,796	72,226

The loans issued to key management personnel and parties related with them during the year are repayable monthly over 1-14 years and have interest rates of 9-18% (2017: 9-18%). The loans advanced are collateralised by real estate and guarantees.

29 Fair value measurement

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

29.1 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 statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	108,279	-	108,279	108,279
Amounts due from financial institutions	-	1,499,983	-	1,499,983	1,499,983
Loans and advances to customers	-	17,668,484	-	17,668,484	17,408,837
Other assets	-	59,006	-	59,006	59,006
<i>Financial liabilities</i>					
Loans and borrowings	-	23,901,332	-	23,901,332	23,991,737
Debt securities issued	-	1,448,040	-	1,448,040	1,480,188
Other liabilities	-	128,983	-	128,983	128,983

In thousand Armenian drams	31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	213,634	-	213,634	213,634
Loans and advances to customers	-	12,578,237	-	12,578,237	12,578,237
Other assets	-	29,209	-	29,209	29,209
<i>Financial liabilities</i>					
Loans and borrowings	-	12,930,841	-	12,930,841	12,938,601
Debt securities Issued	-	1,482,211	-	1,482,211	1,482,211
Other liabilities	-	105,966	-	105,966	105,966

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

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.

Attracted loans and borrowings, issued securities

The fair value of attracted loans and borrowings from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms.

29.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2018			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Securities at FVOCI	-	8,397,644	-	8,397,644
Total	-	8,397,644	-	8,397,644
Net fair value	-	8,397,644	-	8,397,644

In thousand Armenian drams	31 December 2017			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Securities available for sale	-	3,388,879	-	3,388,879
Total	-	3,388,879	-	3,388,879
Net fair value	-	3,388,879	-	3,388,879

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

30 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts 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 realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	31 December 2018					
	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial assets/liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position	Cash collateral received	Net
<i>Financial assets</i>						
Reverse repurchase agreements (note 16)	1,055,021	-	1,055,021	(1,055,021)	-	-
Total financial assets	1,055,021	-	1,055,021	(1,055,021)	-	-
<i>Financial liabilities</i>						
Securities pledged under repurchase agreements (notes 17,23)	7,851,490	-	7,851,490	8,382,644	-	(531,154)
Total financial liabilities	7,851,490	-	7,851,490	8,382,644	-	531,154

	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities in the statement of financial position	Net amount of financial assets/liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
<i>Financial liabilities</i>						
Proceeds under repurchase agreements (Note 17,23)	2,839,416	-	2,839,416	3,018,562	-	(179,146)
Total financial assets	2,839,416	-	2,839,416	3,018,562	-	(179,146)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position and disclosed in the above tables are measured in the statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing are measured at amortised cost

31 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 32.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams

31 December 2018

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Assets</i>							
Cash and cash equivalents	108,279	-	108,279	-	-	-	108,279
Amounts due from other financial institutions	1,499,983	-	1,499,983	-	-	-	1,499,983
Loans and advances to customers	312,794	2,641,768	2,954,562	7,269,999	7,184,276	14,454,275	17,408,837
Investment securities							
- Investment securities at fair value through other comprehensive income	-	-	-	15,000	-	15,000	15,000
Securities at fair value through other comprehensive income pledged under repurchase agreements	8,382,644	-	8,382,644	-	-	-	8,382,644
Other assets	59,006	-	59,006	-	-	-	59,006
	10,362,706	2,641,768	13,004,474	7,284,999	7,184,276	14,469,275	27,473,749

In thousand Armenian
drams

31 December 2018

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Liabilities</i>							
Loans and borrowings	7,932,342	8,229,358	16,161,700	5,549,373	2,280,664	7,830,037	23,991,737
Debt securities issued	-	496,438	496,438	983,750	-	983,750	1,480,188
Other liabilities	128,983	-	128,983	-	-	-	128,983
	<u>8,061,325</u>	<u>8,725,796</u>	<u>16,787,121</u>	<u>6,533,123</u>	<u>2,280,664</u>	<u>8,813,787</u>	<u>25,600,908</u>
Net position	<u>2,301,381</u>	<u>(6,084,028)</u>	<u>(3,782,647)</u>	<u>751,876</u>	<u>4,903,612</u>	<u>5,655,488</u>	<u>1,872,841</u>
Accumulated gap	<u>2,301,381</u>	<u>(3,782,647)</u>		<u>(3,030,771)</u>	<u>1,872,841</u>		

In thousand Armenian
drams

31 December 2017

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Assets</i>							
Cash and cash equivalents	213,634	-	213,634	-	-	-	213,634
Investments available for sale							
- Held by the Company	-	107,824	107,824	10,000	252,493	262,493	370,317
- Securities pledged under repurchase agreements	2,961,367	57,195	3,018,562	-	-	-	3,018,562
Loans and advances to customers	503,960	2,759,874	3,263,834	5,081,797	4,232,606	9,314,403	12,578,237
Other assets	29,209	-	29,209	-	-	-	29,209
	<u>3,708,170</u>	<u>2,924,893</u>	<u>6,633,063</u>	<u>5,091,797</u>	<u>4,485,099</u>	<u>9,576,896</u>	<u>16,209,959</u>
<i>Liabilities</i>							
Loans and borrowings	2,870,465	1,965,909	4,836,374	6,184,123	1,918,104	8,102,227	12,938,601
Debt securities issued	-	514,208	514,208	968,003	-	968,003	1,482,211
Other liabilities	67,884	38,082	105,966	-	-	-	105,966
	<u>2,938,349</u>	<u>2,518,199</u>	<u>5,456,548</u>	<u>7,152,126</u>	<u>1,918,104</u>	<u>9,070,230</u>	<u>14,526,778</u>
Net position	<u>769,821</u>	<u>406,694</u>	<u>1,176,515</u>	<u>(2,060,329)</u>	<u>2,566,995</u>	<u>506,666</u>	<u>1,683,181</u>
Accumulated gap	<u>769,821</u>	<u>1,176,515</u>		<u>(883,814)</u>	<u>1,683,181</u>		

32 Risk management

The Company'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.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Director

The Executive Director is responsible for the implementation and monitoring of the risk management process, asset and liability management. The Executive Director is also responsible for Company's liquidity and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for the risk management in the process of loan provision.

Controller

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

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Excessive risk concentration

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 Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

32.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Company and reported to the Board of Directors regularly.

The carrying amounts of the Company's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

32.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

In thousand Armenian drams

Internal rating grade	31 December 2018				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Total
<i>Cash and cash equivalents</i>					
High	109,240	-	-	109,240	213,634
Gross carrying amount	109,240	-	-	109,240	213,634
Loss allowance	(961)	-	-	(961)	-
Net carrying amount	108,279	-	-	108,279	213,634
<i>Amounts due from banks and other financial institutions</i>					
High	1,505,437	-	-	1,505,437	-
Gross carrying amount	1,505,437	-	-	1,505,437	-
Loss allowance	(5,454)	-	-	(5,454)	-
Net carrying amount	1,499,983	-	-	1,499,983	-
<i>Loans and advances to mortgage and consumer customers</i>					
High grade	11,304,972	18,815	158,022	11,481,809	8,180,645
Standard grade	690,239	588	21,165	711,992	172,429
Substandard grade	-	651,077	105,762	756,839	198,173
Non-performing grade	-	-	1,011,794	1,011,794	393,868
Gross carrying amount	11,995,211	670,480	1,296,743	13,962,434	8,945,115
Loss allowance	(231,489)	(155,228)	(441,011)	(827,728)	(215,767)
Net carrying amount	11,763,722	515,252	855,732	13,134,706	8,729,348
<i>Loans and advances to commercial customers</i>					
High grade	4,147,411	-	65,275	4,212,686	3,874,450
Standard grade	80,480	-	353	80,833	16,068
Substandard grade	-	30,411	49,060	79,471	7,768
Non-performing grade	-	-	49,628	49,628	159,528
Gross carrying amount	4,227,891	30,411	164,316	4,422,618	4,057,814

In thousand Armenian drams

Internal rating grade	31 December 2018			31 December 2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Total
<i>Cash and cash equivalents</i>					
High	109,240	-	-	109,240	213,634
Gross carrying amount	109,240	-	-	109,240	213,634
Loss allowance	(961)	-	-	(961)	-
Loss allowance	(74,237)	(6,463)	(67,787)	(148,487)	(208,925)
Net carrying amount	4,153,654	23,948	96,529	4,274,131	3,848,889
<i>Investment securities at FVOCI (2017: available-for-sale)</i>					
High	8,382,644	-	-	8,382,644	3,388,879
Standard grade*	15,000	-	-	15,000	10,000
Fair value	8,397,644	-	-	8,397,644	3,398,879
<i>Other financial assets</i>					
High grade	62,846	-	-	62,846	32,519
Gross carrying amount	62,846	-	-	62,846	32,519
Loss allowance	(3,840)	-	-	(3,840)	(3,310)
Net carrying amount	59,006	-	-	59,006	29,209
<i>Loan commitments and financial guarantee</i>					
High grade	473,991	-	-	473,991	688,795
Loss allowance**	(5,640)	-	-	(5,640)	-

* Standard grade includes unrated investments amounting AMD 15,000 thousand (2017: AMD 10,000 thousand).

**The ECL allowance in these tables includes only ECL on guarantee, because the Company cannot separately identify the ECL on the loan commitment component from those on the financial instrument component. Those are included in the ECL on loans.

32.1.2 Impairment assessment

Policy applicable from 1 January 2018

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, The Company assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The bank considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Company use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for Loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forbore performing loan or forbore non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for Amounts due to financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Company to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forbore loans for which a probation period is used.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using

qualitative (primarily driven by days past due) and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Grouping financial assets measured on a collective basis

Asset classes where the Company calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interCompany relationships such as Due from Companies, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

The Company groups those assets for which ECL does not calculated on an individual basis into smaller homogeneous portfolios, based on a combination of characteristics of the loans, as described below

- Type of loan (for example, corporate, mortgage, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Company considers intercompany balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for Companyruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts Companyruptcy/insolvency proceedings

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Company's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forbore non-performing exposures.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Company's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in **Note 4.4.6**, estimates and assumptions. To ensure completeness and accuracy, the Company obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Company determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Company uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Industry growth
- Agriculture growth
- Official exchange rate
- Real estate prices (average price in Yerevan)

Impairment assessment policy applicable before 1 January 2018

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support

and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	2017
Industry	1.56%
Trading	0.5%
Consumer	4.18%
Agriculture	3.3%
Mortgage	0.8%
Service	0.47%
Other	14.8 %

As of 31 December 2017 the Company has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams	As of 31 December 2017				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Privately held companies	16,068	-	3,292	14,942	34,302
Individuals	172,429	100,981	97,192	300,721	671,323
Sole proprietors	-	4,475	-	11,574	16,049
Total	188,497	105,456	100,484	327,237	721,674

32.1.3 Risk concentrations

Geographical sectors

Credit risk assets are fully located in the RA.

Loan placements by economy branches are disclosed on Note 18.

32.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

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, movable properties, equipment, inventory
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Company did not hold any financial instruments for which no loss allowance is recognised because of collateral.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans and advances to financial institutions, especially to Companys. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of gross loan portfolio of loans and advances to customers by collateral is represented as follows:

In thousand Armenian drams	<u>31 December 2018</u>	<u>31 December 2017</u>
Loans collateralized by real estate	6,354,568	6,821,223
Loans collateralized by inventories	1,545,612	1,095,733
Loans collateralized by fixed assets	102,971	243,666
Loans collateralized by vehicles	6,937,096	1,417,707
Loans collateralized by gold jewellery or other gold items	11,737	53,360
Loans collateralized by guarantees of financial institutions and individuals	1,124,269	1,501,032
Unsecured loans	1,210,195	851,212
Other collateral	1,098,604	1,018,996
Total loans and advances to customers (gross)	<u>18,385,052</u>	<u>13,002,929</u>

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

32.2 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.

Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

32.2.1 Market risk – Non-trading

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. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

As of 31 December 2018 the Company has not had financial assets and liabilities with variable interest rate.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effects of the assumed changes in interest rates as of 31 December 2018.

In thousand Armenian drams		2018				
Currency	Change in basis points	Sensitivity of equity				Total
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
AMD	1	(292,828)	-	-	-	(292,828)
AMD	-1	312,453	-	-	-	312,453

In thousand Armenian drams		2017				
Currency	Change in basis points	Sensitivity of equity				Total
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
AMD	1	-	(325)	-	(10,176)	(157,179)
AMD	(1)		327	-	10,355	175,454

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. 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) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2018		31 December 2017	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	5	(9,618)	5	(7,239)
EUR	5	31	5	107

The Company's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams

	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
<i>Assets</i>				
Cash and cash equivalents	103,384	4,644	251	108,279
Amounts due from other financial institutions	1,499,983	-	-	1,499,983
Loans and advances to customers	13,877,543	3,531,294	-	17,408,837
<i>Investment securities</i>				
- Investment securities at fair value through other comprehensive income	15,000	-	-	15,000
- Investment securities at fair value through other comprehensive income pledged under repurchase agreements	8,382,644	-	-	8,382,644
Other assets	59,006	-	-	59,006
	<u>23,937,560</u>	<u>3,535,938</u>	<u>251</u>	<u>27,473,749</u>
<i>Liabilities</i>				
Loans and borrowings	21,174,995	2,816,742	-	23,991,737
Debt securities issued	504,697	975,491	-	1,480,188
Other liabilities	123,114	5,869	-	128,983
Total	<u>21,802,806</u>	<u>3,798,102</u>	<u>-</u>	<u>25,600,908</u>
Net position as of 31 December 2018	<u>2,134,754</u>	<u>(262,164)</u>	<u>251</u>	<u>1,872,841</u>
Commitments and contingent liabilities as of 31 December 2018	398,177	70,174	-	473,991
Total financial assets	12,785,843	3,423,908	208	16,209,959
Total financial liabilities	10,960,212	3,566,566	-	14,526,778
Net position as of 31 December 2017	<u>1,825,631</u>	<u>(142,658)</u>	<u>208</u>	<u>1,683,181</u>
Commitments and contingent liabilities As of 31 December 2017	651,798	36,997	-	688,795

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to Russian ruble.

32.3 Liquidity risk

Liquidity risk is the risk that the Company 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 Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

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 Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. See note 31 for the expected maturities of these liabilities.

In thousand Armenian drams					31 December 2018
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
<i>Non-derivative financial liabilities</i>					
Loans and advances	7,946,484	8,690,776	6,831,046	2,566,293	26,034,599
Debt securities issued	-	610,785	1,117,613	-	1,728,398
Other liabilities	128,983	-	-	-	128,983
Total undiscounted non-derivative financial liabilities	<u>8,075,467</u>	<u>9,301,561</u>	<u>7,948,659</u>	<u>2,566,293</u>	<u>27,891,980</u>
Commitments and contingent liabilities	473,991	-	-	-	473,991

In thousand Armenian drams					31 December 2017
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
<i>Non-derivative financial liabilities</i>					
Loans and advances	2,888,974	2,349,545	7,290,088	2,143,167	14,671,774
Debt securities issued	-	635,281	1,079,636	-	1,714,917
Other liabilities	67,884	38,082	-	-	105,966
Total undiscounted non-derivative financial liabilities	<u>2,956,858</u>	<u>3,022,908</u>	<u>8,369,724</u>	<u>2,143,167</u>	<u>16,492,657</u>
Commitments and contingent liabilities	688,795	-	-	-	688,795

32.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board and Executive Management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

33 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	31 December 2018			
	Debt securities issued	Long-term liabilities	Dividends	Total
As of 1 January 2018	1,482,211	12,938,601	-	14,420,812
<i>Cash-flows</i>	(2,660)	11,043,554	(403,751)	10,637,143
Amounts received	708,171	11,395,664	-	12,103,835
Amounts repaid	(710,831)	(352,110)	(403,751)	(1,466,692)
<i>Non-cash</i>	637	9,582	403,751	413,970
Foreign exchange gain	(637)	(2,180)	-	(2,817)
Interests accrued	1,274	11,762	-	13,036
Accrual of dividends	-	-	403,751	403,751
As of 31 December 2018	<u>1,480,188</u>	<u>23,991,737</u>	<u>-</u>	<u>25,471,925</u>

	31 December 2017			
	Debt securities issued	Long-term liabilities	Dividends	Total
As of 1 January 2017	1,180,994	8,895,814	-	10,076,808
<i>Cash-flows</i>	296,996	4,018,478	(310,000)	4,005,474
Amounts received	783,860	5,981,354	-	6,765,214
Amounts repaid	(486,864)	(1,962,876)	(310,000)	(2,759,740)
<i>Non-cash</i>	4,221	24,309	310,000	338,530
Foreign exchange (gain)/loss	3,076	(2,473)	-	603
Interests accrued	1,145	26,782	-	27,927
Accrual of dividends	-	-	310,000	310,000
As of 31 December 2017	<u>1,482,211</u>	<u>12,938,601</u>	<u>-</u>	<u>14,420,812</u>

34 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company'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 Company.

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

The Company 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 Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

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.

As of 31 December 2018 and 2017 the amount of regulatory capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	Not audited	
	2018	2017
Tier 1 capital	2,247,865	1,839,736
Tier 2 capital	138,172	42,424
Total regulatory capital	2,386,037	1,882,160
Risk-weighted assets	16,499,017	11,637,326
Capital adequacy ratio	14.5%	16.2%

RA Central Bank decided to determine the minimum size of total capital amounted to AMD 1,000,000 thousand for the credit organizations carrying out and issuing foreign exchange trading transactions.

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

35. Segment reporting

The Company's operations are quite integrated and form one business segment in accordance with the requirements of *IFRS 8 "Operational segments"*.

Most of the revenues from external clients relate to the RA residents. The Company does not have a single client from which receives 10% or more of its revenue.

The Company's non-current assets are mainly located in the RA.