

Byblos Bank Armenia cjsc
Interim Financial Statements
for the year ended 31 December 2018

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Byblos Bank Armenia ejsc
Interim Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

		1 October 2018 31 December 2018	1 January 2018 31 December 2018	1 October 2017 31 December 2017	1 January 2017 31 December 2017
	Notes	AMD'000	AMD'000	AMD'000	AMD'000
Interest income calculated using the effective interest method	6	1,723,878	6,457,425	1,445,864	5,298,404
Interest expense	6	(1,027,622)	(4,135,986)	(894,688)	(3,253,244)
Net interest income	6	696,256	2,321,439	551,176	2,045,160
Fee and commission income		34,591	116,732	35,014	110,131
Fee and commission expense		(19,900)	(68,513)	(16,887)	(67,911)
Net fee and commission income		14,691	48,219	18,127	42,220
Net foreign exchange gain		15,602	44,909	47,951	67,499
Net realised gain on investment securities		-	602,813	44,960	417,857
Other operating expenses, net		(24,667)	(97,988)	(12,903)	(193,741)
Operating income		701,882	2,919,392	649,311	2,378,995
Impairment losses on other financial assets, credit losses on loans to customers and credit related commitments	7	(115,447)	(242,027)	(76,074)	(664,400)
Personnel expenses		(152,263)	(663,822)	(146,666)	(572,950)
Other general administrative expenses	8	(160,103)	(529,649)	(164,641)	(491,337)
Profit/(loss) before income tax		274,069	1,483,894	261,930	650,308
Income tax benefit / (expense)	9	(168,358)	(250,236)	-	372,848
Profit/(loss) for the year		105,711	1,233,658	261,930	1,023,156
Other comprehensive income for the period, net of income tax					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Movement in fair value reserve :					
- Net change in fair value		85,954	261,174	450,771	982,064
- Net change in fair value transferred to profit or loss		-	(496,419)	(35,156)	(344,213)
Other comprehensive (loss)/ income for the period, net of income tax		85,954	(235,245)	415,615	637,851
Total comprehensive income / (loss) for the period		191,665	998,413	677,545	1,661,007

The financial statements as set out on pages 3 to 56 were approved by management on 15 January 2019 and were signed on its behalf by:

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(f)).

Hayk Stepanyan

Ani Sargsyan

The interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Chief Executive Officer

Head of Finance and Administration

Byblos Bank Armenia ejsc
Interim Statement of Financial Position as at 31 December 2018

	Notes	31 December 2018 AMD'000	31 December 2017 AMD'000
ASSETS			
Cash and cash equivalents	10	11,197,943	7,408,502
Investment securities	11	30,954,555	26,078,994
Amounts receivable under reverse repurchase agreements	12	5,645,497	10,049,975
Loans to banks at amortised cost	13	9,251,050	11,291,962
Loans and advances to customers at amortised cost	14	34,744,258	28,540,823
Property, equipment and intangible assets	15	1,357,260	952,209
Other assets	16	1,122,860	797,374
Total assets		94,273,423	85,119,839
LIABILITIES			
Deposits and balances from banks	17	1,044,673	703,902
Current accounts and deposits from customers	18	53,623,256	45,269,985
Other borrowed funds	19	4,188,692	4,857,638
Subordinated loans from Parent	20	7,836,837	10,554,309
Current tax liability		50,000	-
Deferred tax liability		169,808	-
Other liabilities		214,584	195,391
Total liabilities		67,127,850	61,581,225
EQUITY			
Share capital	21	26,249,100	23,825,100
Share premium		257,149	257,149
Fair value reserve for investment securities		1,359,192	1,491,396
Accumulated losses		(719,868)	(2,035,031)
Total equity		27,145,573	23,538,614
Total liabilities and equity		94,273,423	85,119,839

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

Byblos Bank Armenia cjsc
Interim Statement of Cash Flows for the year ended 31 December 2018

	Notes	1 January 2018 31 December 2018 AMD'000	1 January 2017 31 December 2017 AMD'000
CASH FLOWS USED IN OPERATING ACTIVITIES			
Interest receipts		6,505,048	5,294,355
Interest payments		(3,811,460)	(2,945,371)
Fee and commission receipts		116,715	109,790
Fee and commission payments		(68,484)	(67,877)
Net receipts from operations with investment securities		605,031	417,857
Net receipts from foreign exchange		53,827	34,323
Tax payments (other than income tax)		(16,340)	(14,645)
Salaries and other payments to employees		(697,556)	(472,079)
Other general administrative expenses payments		(480,087)	(391,088)
Other payments		(95,259)	(46,654)
(Increase)/decrease in operating assets			
Investment securities		(5,336,804)	(3,797,505)
Amounts receivable under reverse repurchase agreements		4,404,416	(8,128,458)
Amounts due from banks at amortised cost		2,040,812	(9,108,065)
Loans to customers at amortised cost		(6,415,037)	(6,335,412)
Other assets		(724,629)	398,472
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		346,862	(11,622)
Current accounts and deposits from customers		8,080,475	15,643,567
Payments of other borrowed funds		(660,848)	(257,650)
Other liabilities		15,861	(18,082)
Net cash provided from/(used in) operating activities before income taxes paid		3,862,543	(9,696,144)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(26,467)	(76,864)
Net cash flows used in investing activities		(26,467)	(76,864)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subordinated loan from parent		(2,421,300)	-
Receipt of convertible loan from a related party		-	3,020,578
Proceeds from issuance of shares		2,424,000	-
Net cash flows from financing activities		2,700	3,020,578
Net increase in cash and cash equivalents		3,838,776	(6,752,430)
Effect of changes in exchange rates on cash and cash equivalents		(49,191)	71,791
Effect of changes in credit loss allowance on cash and cash equivalents		(144)	-
Cash and cash equivalents at the beginning of the year		7,408,502	14,089,141
Cash and cash equivalents at the end of the period	10	11,197,943	7,408,502

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

Byblos Bank Armenia cjsc
Interim Statement of Changes in Equity for the year ended 31 December 2018

AMD'000	Share capital	Share premium	Fair value reserve for investment securities	Accumulated losses	Total
Balance as at 1 January 2017	23,825,100	257,149	853,545	(3,058,187)	21,877,607
Total comprehensive income					
Profit for the period	-	-	-	1,023,156	1,023,156
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	982,064	-	982,064
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax			(344,213)		(344,213)
Total other comprehensive income	-	-	637,851	-	637,851
Total comprehensive income for the period	-	-	637,851	1,023,156	1,661,007
Balance as at 31 December 2017	23,825,100	257,149	1,491,396	(2,035,031)	23,538,614
Balance as at 1 January 2018	23,825,100	257,149	1,491,396	(2,035,031)	23,538,614
Impact of adopting IFRS 9			103,041	81,505	184,546
Restated balance at 1 January 2018	23,825,100	257,149	1,594,437	(1,953,526)	23,723,160
Total comprehensive income					
Profit for the period	-	-	-	1,233,658	1,233,658
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of investment securities, net of deferred tax	-	-	261,174	-	261,174
Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	(496,419)	-	(496,419)
Total other comprehensive loss	-	-	(235,245)	-	(235,245)
Total comprehensive income for the period	-	-	(235,245)	1,233,658	998,413
Transactions with owners, recorded directly in equity					
Shares issued	2,424,000		-	-	2,424,000
Total transactions with owners	2,424,000		-	-	2,424,000
Balance as at 31 December 2018	26,249,100	257,149	1,359,192	(719,868)	27,145,573

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

1 Background

(a) Organisation and operations

Byblos Bank Armenia cjsc (the Bank) was established in 2007 under the laws of the Republic of Armenia.

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

The Bank's registered head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The Bank has two branches.

The majority of the assets and liabilities are located in the Republic of Armenia.

(b) Shareholders

In August 2007 Byblos Bank SAL purchased 100% of the shares of ITB International Trade Bank cjsc and the Bank was renamed Byblos Bank Armenia cjsc.

During the year ended 31 December 2008 the European Bank for Reconstruction and Development and the OPEC Fund for International Development acquired 25% and 10% of the ordinary shares of Byblos Bank Armenia cjsc, respectively. In June 2016 EBRD and OPEC Fund for International Development disposed of their shares to Byblos Bank SAL, as a result of which as at 31 December 2016 Byblosbank SAL became 100% shareholder of the Bank.

The Bank is ultimately controlled by a single individual Francois Bassil.

(c) Armenian business environment

The Bank's operations are located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia.

The financial statements reflect management's assessment of the impact of Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets at fair value through other comprehensive income are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

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

The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017, except for the areas described below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the interim condensed financial statements is included in the following note:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(b)(i).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the period ended 30 June 2018 is included in the following note:

- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL – Note 4.

(e) Changes in accounting policies and presentation

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 “*Financial Instruments*”. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 “*Financial Instruments: Recognition and Measurement*”.

In October 2017, the IASB issued “*Prepayment Features with Negative Compensation*” (*Amendments to IFRS 9*). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank has adopted IFRS 9 “*Financial Instruments*” issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39 “*Financial Instruments: Recognition and Measurement*”. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(b)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(b)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - the determination of the business model within which a financial asset is held.
 - the designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3 Significant accounting policies

The accounting policies applied in these interim condensed financial statements are the same as those applied in the last annual financial statements, except as explained below, related to the Bank’s adoption of IFRS 9 (Note 2(e)), which is applicable from 1 January 2018.

Explanation of how the Bank applies changes in accounting policy is presented below.

(a) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-

impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The “amortised cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The ‘gross carrying amount of a financial asset’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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 (see (b)(iv)).

Presentation

Interest income and expense presented in the interim condensed statement of profit or loss and other comprehensive include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

(b) Financial assets and financial liabilities

i. Classification

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.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, 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 a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

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 (see b(ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank 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 (see (b)(v)).

Business model assessment

The Bank 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 Bank'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 Bank'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

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 Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. The Bank should reclassify financial assets if the Bank changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. *Derecognition*

Financial assets

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (b)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

iii. *Modification of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), 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 and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBA key rate, if the loan contract entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement

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 Bank 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. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower (see (b)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income (see (a)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

As part of credit risk management activities, the Bank renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off (see (b)(iv)) before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Bank concludes that modification of financial assets modified as part of the Bank’s forbearance policy is not substantial, the Bank performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Bank 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.

If a modification (or exchange) does not result in the derecognition of the financial liability the Bank applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Bank recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

iv. Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank 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 (see Note 4).

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

12-month ECL 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.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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 (see (b)(iii)) 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 (see Note 4).
- 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 Bank 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 Bank on terms that the Bank 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 addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank 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.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the interim condensed statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank 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; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the interim condensed 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.

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 Bank 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 Bank's procedures for recovery of amounts due.

(c) Loans to customers

"Loans to customers" caption in the interim condensed statement of financial position includes loans

to customers measured at amortised cost (see b(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(d) Investment securities

The “investment securities” caption in the interim condensed statement of financial position includes:

- debt securities measured at FVOCI (see b(i)); and
- equity investment securities designated as at FVOCI (see b(i)).

(e) Financial guarantees and loan commitments

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 at the higher of this amortised amount and the amount of loss allowance (see (b)(iv)).

The Bank has issued no loan commitment that are measured at FVTPL.

For other loan commitments the Bank recognises loss allowance (see (b)(iv)).

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

(f) Comparative information

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of interim condensed financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the interim condensed statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the interim condensed statement of financial position is as follows:

- “Available-for-sale financial assets” were presented within “Investment securities” line item;
- “Revaluation reserve for available-for-sale financial assets” was presented within “Fair value reserve for investment securities” line item.

The effect of main changes in presentation of the interim condensed statement of profit or loss and other comprehensive income is as follows:

- “Interest income” was presented within “Interest income calculated using the effective interest method” line item;
- “Impairment losses” were presented within “Impairment losses on investment securities, and other financial assets, loans to customers and loan commitments” line item.

(g) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Bank has not early adopted the following new or amended standards in the preparing these interim condensed financial statements.

The Bank has no updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Bank's interim condensed financial statements.

4 Financial risk review

This note presents information about the Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 20 in the annual financial statements of the Bank as at and for the year ended 31 December 2017.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(b)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Bank 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 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.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
<ul style="list-style-type: none"> • Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities 	<ul style="list-style-type: none"> • Payment record – this includes overdue status as well as a range of variables about payment ratios • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Bank uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs (if available).

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(b)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(b)(iv))/in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts, changes in exchange rates and prices in real estate market.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that includes instrument and collateral types.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure as at 31 December 2018	External benchmarks used	
		PD	LGD
Investment securities	30,954,555	S&P default study	Moody's recovery studies
Loans to corporate customers	11,536,695	S&P default study	-
Loans to corporate customers	9,980,285	S&P default study	Moody's recovery studies

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

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

Financial assets as at 01 January 2018	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	AMD'000 New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	7,408,502	7,408,399
Investment securities - Debt	Available for sale	FVOCI	26,065,834	26,065,834
Investment securities - Equity	Available for sale	FVOCI	13,160	13,160
Amounts receivable under reverse repurchase agreements	Loans and receivables	Amortised cost	10,049,975	10,049,975
Amounts due from banks at amortised cost	Loans and receivables	Amortised cost	11,291,962	11,291,747
Loans and advances to customers at amortised cost	Loans and receivables	Amortised cost	28,540,823	28,771,823
Total financial assets			83,370,256	83,600,938
Financial liabilities as at 01 January 2018				
Deposits and balances from banks	Amortised cost	Amortised cost	703,902	703,902
Current accounts and deposits from customers	Amortised cost	Amortised cost	45,269,985	45,269,985
Other borrowed funds	Amortised cost	Amortised cost	4,857,638	4,857,638
Subordinated loan	Amortised cost	Amortised cost	10,554,309	10,554,309
Total financial liabilities			61,385,834	61,385,834

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(c)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below:

- Certain debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the

return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

- b. Equity investments held by the Bank have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	000' AMD IFRS 9 carrying amount 1 January 2018
Financial assets as at 01 January 2018				
Amortised cost				
Cash and cash equivalents				
<i>Opening Balance</i>	7,408,502			
<i>Remeasurement</i>		-	(103)	
<i>Closing balance</i>	-	-	-	7,408,399
Amounts receivable under reverse repurchase agreements				
<i>Opening Balance</i>	10,049,975			
<i>Remeasurement</i>		-	-	
<i>Closing balance</i>	-	-	-	10,049,975
Loans to banks				
<i>Opening Balance</i>	11,291,962			
<i>Remeasurement</i>		-	(215)	
<i>Closing balance</i>	-	-	-	11,291,747
Loans to customers				
<i>Opening Balance</i>	28,540,823			
<i>Remeasurement</i>		-	231,000	
<i>Closing balance</i>	-	-	-	28,771,823
Total amortised cost	57,291,262	-	230,682	57,521,944
FVOCI – debt				
Investment securities:				
<i>Opening balance</i>	26,065,834			
<i>From available-for sale</i>		26,065,834	-	
<i>Remeasurement</i>			-	
<i>Closing balance</i>	-	-	-	26,065,834
FVOCI – equity				
Investment securities:				
<i>Opening balance</i>	13,160			
<i>From available-for sale</i>		13,160	-	
<i>Closing balance</i>	-	-	-	13,160
Total FVOCI	26,078,994	26,078,994	-	26,078,994

As a result of adoption of IFRS 9 there was no reclassification or remeasurement of financial liabilities.

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the the fair value reserve and retained earnings. There is no impact on other components of equity.

AMD'000

**Impact of adopting IFRS 9 at
1 January 2018**

Fair value reserve – FVOCI-debt (31 December 2017 – Fair value reserve – available-for-sale)

Closing balance under IAS 39 (31 December 2017)	1,491,396
Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI	103,041
Opening balance under IFRS 9 (1 January 2018)	1,594,437

Retained earnings

Closing balance under IAS 39 (31 December 2017)	(2,035,031)
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	81,505
Opening balance under IFRS 9 (1 January 2018)	(1,953,526)

* The Bank reassessed its approach regarding the write off of loans to customers overdue 360-720 days. As a result the Bank reversed the previously written off loans to customers expensed in the amount of AMD 227,427 thousand.

The following table reconciles:

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

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018

AMD'000

	31 December 2017 (IAS 39/IAS 37)	Reclassification	Remeasure- ment	1 January 2018 (IFRS 9)
Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans to banks and loans to customers)	4,366,887		53,601	4,420,488
Total measured at amortised cost	4,366,887	-	53,601	4,420,488
Available-for-sale debt investment securities under IAS 39/debt investment securities at FVOCI under IFRS 9	-		103,041	103,041
Total measured at FVOCI	-	-	103,041	103,041

6 Net interest income

	1 October 2018 31 December 2018 AMD'000	1 January 2018 31 December 2018 AMD'000	1 October 2017 31 December 2017 AMD'000	1 January 2017 31 December 2017 AMD'000
Interest income				
Loans to customers at amortised cost	818,721	3,103,006	717,234	2,603,926
Investment securities	688,202	2,598,489	617,099	2,369,042
Loans to banks at amortised cost	112,607	415,506	61,951	175,056
Amounts receivable under reverse repurchase agreements	100,352	327,763	45,876	143,960
Other	3,996	12,661	3,704	6,420
	1,723,878	6,457,425	1,445,864	5,298,404
Interest expense				
Current accounts and deposits from customers	770,815	3,013,048	613,477	2,152,797
Subordinated loans from Parent	147,302	651,774	167,427	653,728
Other borrowed funds	88,531	373,057	100,223	390,366
Deposits and balances from banks	20,974	85,203	13,561	56,311
Amounts payable under repurchase agreements	-	-	-	42
Other	-	12,904	-	-
	1,027,622	4,135,986	894,688	3,253,244
Net interest income	696,256	2,321,439	551,176	2,045,160

7 Net impairment loss on financial assets

	1 October 2018 31 December 2018 AMD'000	1 January 2018 31 December 2018 AMD'000	1 October 2017 31 December 2017 AMD'000	1 January 2017 31 December 2017 AMD'000
Loans to customers at amortised cost	(81,412)	(171,472)	(76,882)	(658,863)
Other assets	(34,035)	(70,555)	808	(5,537)
	(115,447)	(242,027)	(76,074)	(664,400)

8 Other general administrative expenses

	1 October 2018 31 December 2018 AMD'000	1 January 2018 31 December 2018 AMD'000	1 October 2017 31 December 2017 AMD'000	1 January 2017 31 December 2017 AMD'000
Advertising and marketing	37,304	100,949	47,117	101,963
Depreciation and amortisation	17,944	72,162	16,906	60,940
Maintenance of computer software	13,932	54,818	13,618	50,704
Professional services	18,634	48,448	5,676	23,727
Taxes other than on income	14,735	44,215	26,325	63,566
Insurance	9,664	37,362	8,647	33,613
Repairs and maintenance	8,878	36,844	10,456	42,225
Security	6,536	26,016	6,364	25,388
Legal services	5,491	23,195	2,370	7,451

	1 October 2018 31 December 2018 AMD'000	1 January 2018 31 December 2018 AMD'000	1 October 2017 31 December 2017 AMD'000	1 January 2017 31 December 2017 AMD'000
Communications and information services	4,614	18,254	4,716	17,282
Membership expenses	3,594	9,853	2,125	7,850
Maintenance of cars	2,239	7,500	2,483	9,726
Office supplies	1,863	7,294	1,852	8,856
Travel expenses	1,241	7,131	4,151	10,178
Trainings	4,344	7,114	4,889	6,648
Operating lease	-	4	-	9
Other	9,090	28,490	6,946	21,211
	160,103	529,649	164,641	491,337

9 Income tax

	1 October 2018 31 December 2018 AMD'000	1 January 2018 31 December 2018 AMD'000	1 October 2017 31 December 2017 AMD'000	1 January 2017 31 December 2017 AMD'000
Current period tax expense	(50,000)	(50,000)	-	-
Origination and reversal of temporary differences	(118,358)	(200,236)	-	-
Total income tax (loss)/benefit	(168,358)	(250,236)	-	372,848

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

Reconciliation of effective tax rate for the year ended 31 December:

	2018 AMD'000	%	2017 AMD'000	%
Profit before tax	1,483,894		650,308	
Tax at the applicable tax rate	(296,778)	(20)	(130,062)	(20)
Non-deductible costs	(25,423)	(2)	(19,563)	(3)
Change in unrecognised deferred tax assets	71,965	5	522,473	80
	(250,236)	17	372,848	57

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2018 and as at 31 December 2017.

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

31 December 2018 AMD'000	1 January 2018	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2018
Cash and cash equivalents	(1,839)	(62)	-	(1,901)
Investment securities	(372,848)	-	76,565	(296,283)

31 December 2018			Recognized in other	
AMD'000	1 January 2018	Recognized in	comprehensive	31 December 2018
		profit or loss	income	
Amounts receivable under reverse repurchase agreements	(20,100)	8,809	-	(11,291)
Loans to banks	(22,256)	4,049	-	(18,207)
Loans to customers	211,454	(41,331)	-	170,123
Property, equipment and intangible assets	(5,702)	(3,249)	-	(8,951)
Other assets	7,591	(1,942)	-	5,649
Other liabilities	(9,910)	963	-	(8,947)
Tax loss carry-forward	167,473	(167,473)	-	-
	(46,137)	(200,236)	76,565	(169,808)

31 December 2017			Recognized in other	
AMD'000	1 January 2017	Recognized in	comprehensive	31 December 2017
		profit or loss	income	
Cash and cash equivalents	-	(1,839)	-	(1,839)
Available-for-sale financial assets	(213,385)	-	(159,463)	(372,848)
Amounts receivable under reverse repurchase agreements	-	(20,100)	-	(20,100)
Loans to banks	-	(22,299)	-	(22,299)
Loans to customers	-	257,634	-	257,634
Property, equipment and intangible assets	-	(5,702)	-	(5,702)
Other assets	-	7,591	-	7,591
Other liabilities	-	(9,910)	-	(9,910)
Tax loss carry-forward	-	167,473	-	167,473
	(213,385)	372,848	(159,463)	-

10 Cash and cash equivalents

	31 December 2018	31 December 2017
	AMD'000	AMD'000
Cash on hand	446,626	424,579
Nostro accounts with the CBA, including obligatory reserves	9,800,969	6,064,886
Nostro accounts with other banks		
- OECD banks	152,809	104,951
- Other foreign banks	796,378	570,921
- Largest 5 Armenian banks	15	-
- Other Armenian banks	1,290	243,165
Total nostro accounts with other banks	950,492	919,037
Total gross cash and cash equivalents	11,198,087	7,408,502
ECL allowance	(144)	-
Total cash and cash equivalents as shown in the statement of financial position	11,197,943	7,408,502

No cash and cash equivalents are impaired or past due.

As at 31 December 2018 and 31 December 2017 the Bank has no banks, excluding balances with the CBA, whose balances exceeded 10% of the equity.

Nostro accounts with the CBA

Nostro accounts with the CBA are related to settlement activity and are available for withdrawal at the end of the period.

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

As at 31 December 2018 included in nostro accounts with the CBA, is the amount of obligatory reserve of AMD 6,531,917 thousand for amounts attracted in Armenian drams and foreign currency (2017: AMD 5,233,294 thousand).

11 Investment securities

	31 December 2018 AMD'000	31 December 2017 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	29,129,486	24,801,931
- Securities of international financial institutions	897,925	904,098
- Corporate bonds issued by largest 5 Armenian bank	510,394	359,805
- Other corporate bonds	403,590	-
	30,941,395	26,065,834
Equity instruments		
- Corporate shares	13,160	13,160
	30,954,555	26,078,994
Credit loss allowance	(174,203)	-
	30,954,555	26,078,994

None of financial assets at FVOCI are impaired or past due.

Included in financial assets at FVOCI are non-quoted equity securities:

Name	Country of incorporation	Main activity	% Controlled		31 December 2018 AMD'000	31 December 2017 AMD'000
			31 December 2018	31 December 2017		
ArCa	Republic of Armenia	Payment system	1.25%	1.25%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

Investments without a determinable fair value

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

12 Amounts receivable under reverse repurchase agreements

	31 December 2018 AMD'000	31 December 2017 AMD'000
Amounts receivable from 5 largest Armenian banks	1,403,892	4,370,280
Amounts receivable from other Armenian banks	4,241,605	5,679,695
	5,645,497	10,049,975

As 31 December 2018 the Bank has one bank (2017: two), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2018 is AMD 3,239,786 thousand (2017: AMD 9,078,801 thousand).

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks. None of them are past due or impaired.

Collateral

As at 31 December 2018 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of AMD 5,904,003 thousand (2017: AMD 10,234,433 thousand).

13 Loans to banks at amortised cost

	31 December 2018 AMD'000	31 December 2017 AMD'000
Credit card settlement deposit with the CBA	150,000	142,500
Loans and deposits		
- Largest 5 Armenian banks	3,426,238	3,389,861
- Other Armenian banks	5,599,169	7,688,780
- OECD banks	78,020	70,821
Total loans and deposits	9,103,427	11,149,462
ECL allowance	(2,377)	-
Total loans to banks	9,251,050	11,291,962

No amounts due from banks are impaired or past due.

As at 31 December 2018 included in loans and deposits with OECD banks is AMD 78,020 thousand (2017: AMD 70,821 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Credit card settlement deposit with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdrawability is restricted.

(b) Concentration of loans to banks

As at 31 December 2018 the Bank has one bank (2017: three), whose balances exceeded 10% of equity. The value of these balances as at 31 December 2018 is AMD 4,842,521 thousand (2017: AMD 8,263,611 thousand).

14 Loans and advances to customers at amortised cost

	31 December 2018 AMD'000	31 December 2017 AMD'000
Loans to corporate customers		
Loans to large corporate	24,081,236	19,486,784
Loans to small and medium sized companies	1,670,187	1,075,849
Total loans to corporate customers	25,751,423	20,562,633
Loans to retail customers		
Mortgage loans	11,053,157	10,340,378
Consumer loans secured by real estate	964,871	1,131,612
Credit card loans	419,625	233,828
Consumer loans with salary domiciliation	296,318	251,762
Small business loans	277,186	147,260
Other	260,574	64,978
Auto loans	123,637	175,259
Total loans to retail customers	13,395,368	12,345,077
Gross loans to customers	39,146,791	32,907,710
ECL allowance	(4,402,533)	(4,366,887)
Net loans to customers	34,744,258	28,540,823

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2018 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	4,211,068	209,103	4,420,171
Net charge	84,043	87,430	171,473
Write-offs	(60,668)	(128,443)	(189,111)
Balance at the end of the period	4,234,443	168,090	4,402,533

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	3,902,804	323,197	4,226,001
Net charge	579,698	79,165	658,863
Write-offs	(350,632)	(167,345)	(517,977)
Balance at the end of the period	4,131,870	235,017	4,366,887

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2018:

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Loans to corporate customers				
Loans to large corporate				

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Loans without individual signs of impairment	20,124,144	-	-	20,124,144
Impaired loans:				
- overdue more than 1 year	-	-	3,957,092	3,957,092
Total loans to large corporate	20,124,144	-	3,957,092	24,081,236
Expected credit loss allowance	(325,229)	-	(3,732,759)	(4,057,988)
Total net loans to large corporate	19,798,915	-	224,333	20,023,248
Loans to small and medium size companies				
Loans without individual signs of impairment	1,487,683	-	-	1,487,683
Impaired loans:				
-overdue more than 1 year	-	-	182,504	182,504
Total loans to small and medium size companies	1,487,683	-	182,504	1,670,187
Expected credit loss allowance	(10,724)	-	(165,731)	(176,455)
Total net loans to small and medium size companies	1,476,959	-	16,773	1,493,732
Gross loans to corporate customers	21,611,827		4,139,596	25,751,423
Total expected credit loss on corporate customers	(335,953)	-	(3,898,490)	(4,234,443)
Total net loans to corporate customers	21,275,874	-	241,106	21,516,980
Loans to retail customers				
Mortgage loans				
-not overdue	10,470,048	-	-	10,470,048
- overdue less than 30 days	55,899	-	-	55,899
- not overdue, but impaired	-	254,978	-	254,978
- overdue 31-90 days	-	83,842	-	83,842
- overdue 91-180 days	-	-	9,298	9,298
- overdue 181-270 days	-	-	33,142	33,142
- overdue more than 271 days	-	-	145,950	145,950
	10,525,947	338,820	188,390	11,053,157
Expected credit loss allowance	(37,528)	(64,892)	(43,389)	(145,809)
Total net mortgage loans	10,488,419	273,928	145,001	10,907,348
Consumer loans secured by real estate				
-not overdue	863,828	-	-	863,828
- overdue less than 30 days	15,914	12,938	-	28,852
- not overdue, but impaired	-	23,857	-	23,857
- overdue 31-90 days	-	13,863	-	13,863
- overdue 91-180 days	-	-	8,463	8,463
- overdue 181-270 days	-	-	7,070	7,070
- overdue more than 271 days	-	-	18,938	18,938
	879,742	50,658	34,471	964,871
Expected credit loss allowance	(1,876)	(2,826)	(2,659)	(7,361)
Total net consumer loans secured by real estate	877,866	47,832	31,812	957,510
Consumer loans with salary domiciliation				
- not overdue	279,098	-	-	279,098
- overdue less than 30 days	3,235	285	-	3,520
- not overdue, but impaired	-	11,238	-	11,238
- overdue 31-90 days	-	1,318	-	1,318
- overdue 91-180 days	-	-	625	625
- overdue 181-270 days	-	-	519	519
	282,333	12,841	1,144	296,318
Expected credit loss allowance	(1,327)	(2,270)	(521)	(4,118)
Total net consumer loans with salary domiciliation	281,006	10,571	623	292,200
Credit cards				
- not overdue	411,198	-	-	411,198
- overdue less than 30 days	6,147	-	-	6,147

	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
- not overdue, but impaired	-	2,280	-	2,280
	417,345	2,280	-	419,625
Expected credit loss allowance	(4,958)	(229)	-	(5,187)
Total net credit cards	412,387	2,051	-	414,438
Auto loans				
- not overdue	119,180	-	-	119,180
- not overdue, but impaired	-	421	-	421
- overdue 31-90 days	-	2,235	-	2,235
- overdue 91-180 days	-	-	500	500
- overdue more than 271 days	-	-	1,301	1,301
	119,180	2,656	1,801	123,637
Expected credit loss allowance	(266)	(159)	(367)	(792)
Total net auto loans	118,914	2,497	1,434	122,845
Small business loans				
- not overdue	247,277	-	-	247,277
- not overdue, but impaired	-	29,028	-	29,028
- overdue more than 271 days	-	-	881	881
	247,277	29,028	881	277,186
Expected credit loss allowance	(1,808)	(2,869)	(146)	(4,823)
Total net small business loans	245,469	26,159	735	272,363
Other retail loans				
- not overdue	260,574	-	-	260,574
	260,574	-	-	260,574
Expected credit loss allowance	-	-	-	-
Total net other retail loans	260,574	-	-	260,574
Gross retail loans	12,732,398	436,283	226,687	13,395,368
Total expected credit loss allowance on retail loans	(47,763)	(73,245)	(47,082)	(168,090)
Total net retail loans	12,684,635	363,038	179,605	13,227,278
Total net loans to customers	33,960,509	363,038	420,711	34,744,258

The following table provides information on the credit quality of loans to customers as at 31 December 2017:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	14,838,009	(170,637)	14,667,372	1.1
Impaired loans:				
- overdue more than 1 year	4,648,775	(3,796,627)	852,148	81.7
Total impaired loans	4,648,775	(3,796,627)	852,148	81.7
Total loans to large corporates	19,486,784	(3,967,264)	15,519,520	20.4
Loans to small and medium size companies				
Loans without individual signs of impairment	709,291	(8,157)	701,134	1.2
Impaired loans:				
-overdue more than 1 year	366,558	(156,449)	210,109	42.7
Total impaired loans	366,558	(156,449)	210,109	42.7
Total loans to small and medium size companies	1,075,849	(164,606)	911,243	15.3
Total loans to corporate customers	20,562,633	(4,131,870)	16,430,763	20.1
Loans to retail customers				
Mortgage loans				
-not overdue	9,965,047	(19,930)	9,945,117	0.2

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
- not overdue, but impaired	60,694	(13,353)	47,341	22.0
- overdue less than 30 days	23,773	(11,173)	12,600	47.0
- overdue 31-90 days	58,210	(27,359)	30,851	47.0
- overdue 91-180 days	45,811	(21,531)	24,280	47.0
- overdue 181-270 days	41,871	(19,679)	22,192	47.0
- overdue more than 271 days	144,972	(68,137)	76,835	47.0
Total mortgage loans	10,340,378	(181,162)	10,159,216	1.8
Consumer loans secured by real estate				
- not overdue	1,037,067	(2,074)	1,034,993	0.2
- not overdue, but impaired	19,275	(4,240)	15,035	22.0
- overdue less than 30 days	5,270	(2,319)	2,951	44.0
- overdue 31-90 days	7,589	(3,339)	4,250	44.0
- overdue 91-180 days	18,064	(7,948)	10,116	44.0
- overdue 181-270 days	7,866	(3,461)	4,405	44.0
- overdue more than 271 days	36,481	(16,052)	20,429	44.0
Total consumer loans secured by real estate	1,131,612	(39,433)	1,092,179	3.5
Consumer loans with salary domiciliation				
- not overdue	249,550	(1,248)	248,302	0.5
- not overdue, but impaired	949	(285)	664	30.0
- overdue less than 30 days	515	(309)	206	60.0
- overdue 31-90 days	748	(449)	299	60.0
Total consumer loans with salary domiciliation	251,762	(2,291)	249,471	0.9%
Credit card loans				
- not overdue	228,287	(1,141)	227,146	0.5
- not overdue, but impaired	5,541	(1,662)	3,879	30.0
Total credit card loans	233,828	(2,803)	231,025	1.2
Auto loans				
- not overdue	161,829	(324)	161,505	0.2
- not overdue, but impaired	5,371	(537)	4,834	10.0
- overdue 31-90 days	5,100	(1,020)	4,080	20.0
- overdue 91-180 days	1,659	(332)	1,327	20.0
- overdue more than 271 days	1,300	(260)	1,040	20.0
Total auto loans	175,259	(2,473)	172,786	1.4
Small business loans				
- not overdue	139,392	(1,394)	137,998	1.0
- not overdue, but impaired	117	(35)	82	29.9
- overdue less than 30 days	2,500	(1,750)	750	70.0
- overdue more than 271 days	5,251	(3,676)	1,575	70.0
Total small business loans	147,260	(6,855)	140,405	4.7
Other retail loans				
- not overdue	64,978	-	64,978	0.0
Total other retail loans	64,978	-	64,978	0.0
Total loans to retail customers	12,345,077	(235,017)	12,110,060	1.90
Total loans to customers	32,907,710	(4,366,887)	28,540,823	13.3

(b) Analysis of collateral

(i) Loans to corporate customers

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

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2018		Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Cash collateral	550,914		550,914
Real estate	10,484,416	-	10,484,416
Bank account turnover	4,998,550	-	4,998,550
Other collateral	260,259	-	260,259
No collateral	4,981,735		4,981,735
Total loans without individual signs of impairment	21,275,874	-	21,275,874
Overdue or impaired loans			
Real estate	157,881	157,881	-
No collateral	83,225		
Total overdue or impaired loans	241,106	157,881	-
Total loans to corporate customers	21,516,980	157,881	21,275,874

31 December 2017		Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Real estate	8,306,451	-	8,306,451
Bank account turnover	5,621,613	-	5,621,613
No collateral	1,440,442	-	-
Total loans without individual signs of impairment	15,368,506	-	13,928,064
Overdue or impaired loans			
Real estate	1,062,257	1,062,257	-
Total overdue or impaired loans	1,062,257	1,062,257	-
Total loans to corporate customers	16,430,763	1,062,257	13,928,064

The tables above exclude overcollateralisation.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Securities received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

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

(ii) Loans to retail customers

Mortgage loans and consumer loans secured by real estate are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans and consumer loans secured by real estate with a loan-to-value ratios of a maximum of 70% and 50% respectively at the date of loan issuance. Small business loans are secured by real estate. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries.

(iii) Repossessed collateral

During the year ended 31 December 2018, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 670,176 thousand (31 December 2017: AMD 38,975 thousand). Part of the repossessed collateral in the amount of AMD 12,800 thousand was sold during the year ended 31 December 2018 (31 December 2017: AMD 629,856 thousand).

As at 31 December 2018 and 31 December 2017, the repossessed collateral comprises:

	31 December 2018	31 December 2017
	AMD'000	AMD'000
Real estate	914,284	703,129
Other assets	-	4,824
Total repossessed collateral	914,284	707,953

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

(c) Asset under lien

As at 31 December 2018, loans to customers with a gross value of AMD 1,011,175 thousand (31 December 2017: AMD 1,345,984 thousand) serve as collateral for deposits and balances from banks and other borrowed funds (see notes 17 and 19).

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	31 December 2018	31 December 2017
	AMD'000	AMD'000
Energy and gas	9,892,755	7,144,214
Real Estate	3,280,520	3,101,523
Processing of agricultural produce	3,248,365	2,833,704
Trade	3,178,214	3,110,338
Construction	2,745,786	854,478
Transport	1,590,179	1,704,271
Manufacturing	1,203,091	1,472,588
Public catering and other services	612,513	341,517
Loans to retail customers	13,395,368	12,345,077
	39,146,791	32,907,710
ECL allowance	(4,402,533)	(4,366,887)
	34,744,258	28,540,823

(e) Significant credit exposures

As at 31 December 2018 the Bank has three borrowers or groups of connected borrowers

(31 December 2017: two), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 December 2018 is AMD 12,677,205 thousand (31 December 2017: AMD 8,021,092 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 20 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2018	954,248	298,081	259,952	44,265	-	165,307	1,721,853
Additions	451,045	19,125	6,647	-	-	560	477,377
Disposals	-	(10,722)	(969)	-	-	-	(11,691)
Balance at 31 December 2018	1,405,293	306,484	265,630	44,265	-	165,867	2,187,539
Depreciation and amortization							
Balance at 1 January 2018	(203,248)	(245,378)	(205,468)	(18,942)	-	(96,608)	(769,644)
Depreciation and amortization for the year	(19,703)	(26,450)	(20,142)	(5,373)	-	(495)	(72,163)
Disposals	-	10,559	969	-	-	-	11,528
Balance at 31 December 2018	(222,951)	(261,269)	(224,641)	(24,315)	-	(97,103)	(830,279)
At 31 December 2018	1,182,342	45,215	40,989	19,950	-	68,764	1,357,260
Cost							
Balance at 1 January 2017	947,195	276,664	291,655	40,839	-	164,376	1,720,729
Additions	7,053	29,549	13,758	27,073	-	931	78,364
Disposals	-	(8,132)	(45,461)	(23,647)	-	-	(77,240)
Balance at 31 December 2017	954,248	298,081	259,952	44,265	-	165,307	1,721,853
Depreciation and amortization							
Balance at 1 January 2017	(183,143)	(235,735)	(229,825)	(40,839)	-	(96,351)	(785,893)
Depreciation and amortization for the year	(20,105)	(17,764)	(21,064)	(1,750)	-	(257)	(60,940)
Disposals	-	8,121	45,421	23,647	-	-	77,189
Balance at 31 December 2017	(203,248)	(245,378)	(205,468)	(18,942)	-	(96,608)	(769,644)
Carrying amount							
At 31 December 2017	751,000	52,703	54,484	25,323	-	68,699	952,209

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the year ended 31 December 2018 (2017: nil).

16 Other assets

	31 December 2018 AMD'000	31 December 2017 AMD'000
Receivables under money transfer and clearing systems	3,882	4,169
Other receivables	49,929	12,785
Total other financial assets	53,811	16,954
Reposessed assets	914,284	707,953
Tax prepayments	70,344	13,808
Other prepayments	61,116	33,326
Other	23,305	25,333
Total other non-financial assets	1,069,049	780,420
Total other assets	1,122,860	797,374

During the year ended 31 December 2018 receivables in the amount of AMD 2,809 thousand were recovered (2017: net write-off of AMD 5,537 thousand).

Management believes that the carrying amount of reposessed assets approximately equals their fair value less costs to sell as at 31 December 2018 and 31 December 2017.

17 Deposits and balances from banks

	31 December 2018 AMD'000	31 December 2017 AMD'000
Loans and term deposits	1,044,673	703,902

As at 31 December 2018 the Bank has no bank, whose balance exceeded 10% of equity (2017: none).

18 Current accounts and deposits from customers

	31 December 2018 AMD'000	31 December 2017 AMD'000
Current accounts and demand deposits		
- Retail	6,206,381	4,673,749
- Corporate	867,040	1,000,906
Term deposits		
- Retail	32,521,336	29,526,386
- Corporate	14,028,499	10,068,944
	53,623,256	45,269,985

As at 31 December 2018 the Bank maintained customer deposit balances of AMD 1,274,342 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2017: AMD 465,821 thousand).

As at 31 December 2018 the Bank has one customer (2017: one), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2018 is AMD 3,996,619 thousand (31 December 2017: AMD 2,681,545 thousand).

19 Other borrowed funds

	31 December 2018 AMD'000	31 December 2017 AMD'000
Loan from a related party	3,064,295	3,066,241
Loans from National Mortgage Company	876,632	1,191,370
Loan from International Financial Corporation (IFC)	188,415	562,898
Other	59,350	37,129
	4,188,692	4,857,638

(a) Convertable borrowing

On 19 January 2017 the Bank received a loan from the related party of USD 6,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 4 years. The loan contains mandatory conversion clause, representing forward financial instrument. Management believes that the fair value of instrument is not material as at 31 December 2018.

(b) Breach of covenants

The Bank breached some of its maximum covenant thresholds under the loan agreement with IFC. As at 31 December 2018 and 31 December 2017 the management did not obtain a waiver, so that these loans were payable on demand as at 31 December 2018 and 31 December 2017. Accordingly, the loans from IFC of AMD 188,415 thousand (31 December 2017: loans from IFC of AMD 562,898 thousand) are classified as being due on demand in the interest rate gap, liquidity and maturity tables in note 20.

20 Subordinated loans from Parent

On 30 April 2015, on 31 December 2016 and on 13 December 2016 the Bank obtained subordinated loans from the Parent of USD 5,000 thousand, EUR 9,375 thousand and USD 5,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 10 years, at the option of the holder. The loans contain mandatory and voluntary conversion options, representing forward and option financial instruments, respectively. Management believes that the fair value of both instruments is not material as at 31 December 2018 and 31 December 2017.

21 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 262,491 ordinary shares (31 December 2017: 238,251). All shares have a nominal value of AMD 100,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. During the year ended 31 December 2018 the Bank issued 24,240 ordinary shares in nominal value and as a result the share capital increased by AMD 2,424,000 thousand.

(b) Nature and purpose of reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets at FVOCI, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date no reserves are available for distribution (2017: nil).

22 Risk management

(a) Risk management policies and procedures

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

The Bank's risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Bank has developed a system of reporting on significant risks and capital.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. The Management Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

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

In compliance with the Bank's internal documentation the the Management Committee and internal audit function frequently prepare reports, which cover the Bank's significant risks management. The reports include observations as to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in debt and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO Committee.

(i) **Interest rate risk**

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Cash and cash equivalents	949,484	-	-	-	-	10,248,459	11,197,943
Investment securities	73,217	2,196,744	-	15,758,792	12,912,642	13,160	30,954,555
Amounts receivable under reverse repurchase agreements	5,645,497	-	-	-	-	-	5,645,497
Amounts due from banks at amortised cost	4,187,075	-	-	4,835,955	78,020	150,000	9,251,050
Loans to customers at amortised cost	1,532,236	2,205,854	2,236,444	21,055,235	7,714,489	-	34,744,258
Other financial assets	-	-	-	-	-	53,812	53,812
	12,387,509	4,402,598	2,236,444	41,649,982	20,705,151	10,465,431	91,847,115
LIABILITIES							
Deposits and balances from banks	-	17,642	-	1,027,031	-	-	1,044,673
Current accounts and deposits from customers	18,624,800	10,367,685	15,417,036	7,361,443	23,825	1,828,467	53,623,256
Other borrowed funds	286,914	30,149	79,228	3,576,184	216,217	-	4,188,692
Subordinated loans from Parent	132,158	-	-	-	7,704,679	-	7,836,837
Other financial liabilities	-	-	-	-	-	166,846	166,846
	19,043,872	10,415,476	15,496,264	11,964,658	7,944,721	1,995,313	66,860,304
	(6,656,363)	(6,012,878)	(13,259,820)	29,685,324	12,760,430	8,470,118	24,986,811
AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	918,132	-	-	-	-	6,490,370	7,408,502
Available-for-sale financial assets	1,685,051	1,299,957	370,577	10,709,342	12,000,907	13,160	26,078,994
Amounts receivable under reverse repurchase agreements	10,049,975	-	-	-	-	-	10,049,975
Loans to banks	11,078,641	-	-	-	70,821	142,500	11,291,962
Loans to customers	2,128,118	2,129,670	1,954,342	14,776,419	7,552,274	-	28,540,823
Other financial assets	-	-	-	-	-	16,954	16,954
	25,859,917	3,429,627	2,324,919	25,485,761	19,624,002	6,662,984	83,387,210
LIABILITIES							
Deposits and balances from banks	25,791	386	8,455	669,270	-	-	703,902
Current accounts and deposits from customers	13,808,625	6,767,691	14,185,336	9,067,470	32,354	1,408,509	45,269,985
Other borrowed funds	676,019	33,446	70,821	3,766,808	310,544	-	4,857,638
Subordinated loans from Parent	177,984	-	-	-	10,376,325	-	10,554,309
Other financial liabilities	-	-	-	-	-	132,642	132,642
	14,688,419	6,801,523	14,264,612	13,503,548	10,719,223	1,541,151	61,518,476
	11,171,498	(3,371,896)	(11,939,693)	11,982,213	8,904,779	5,121,833	21,868,734

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2018			31 December 2017		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Investment securities	10.1%	6.4%	-	10.9%	6.4%	-
Amounts receivable under reverse repurchase agreements	6.2%	2.0%	-	6.0%	1.5%	-
Amounts due from banks at amortised cost	6.8%	5.6%	-	5.8%	2.0%	1.0%
Loans to customers at amortised cost	12.9%	8.0%	7.1%	13.5%	6.3%	8.0%
Interest bearing liabilities						
Deposits and balances from banks	8.0%	-	-	8.1%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.4%	1.2%	0.3%	2.5%	1.4%	0.6%
- Term deposits	9.5%	4.5%	2.6%	11.0%	4.9%	2.9%
Other borrowed funds	9.0%	8.2%	-	9.1%	8.0%	-
Subordinated loans from parent	-	6.5%	6.5%	-	6.5%	6.5%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 31 December 2017, respectively, as follows:

	31 December 2018 AMD'000	31 December 2017 AMD'000
100 bp parallel fall	26,883	99,137
100 bp parallel rise	(26,883)	(99,137)

An analysis of sensitivity of net profit or loss and equity as a result of changes in fair value of financial assets at FVOCI due to changes in the interest rates based on positions existing at 31 December 2018 and 31 December 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	31 December 2018		31 December 2017	
	AMD'000		AMD'000	
	Net profit or loss AMD'000	Equity AMD'000	Net profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	1,147,037	-	929,630
100 bp parallel rise	-	(1,147,037)	-	(929,630)

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	7,421,385	2,387,381	1,374,525	14,652	11,197,943
Investment securities	29,467,183	1,487,372	-	-	30,954,555
Amounts receivable under reverse repurchase agreements	5,330,790	314,707	-	-	5,645,497
Amounts due from banks at amortised cost	1,910,551	7,340,499	-	-	9,251,050
Loans to customers at amortised cost	8,166,600	21,451,286	5,126,372	-	34,744,258
Other financial assets	42,574	11,201	34	3	53,812
Total assets	52,339,083	32,992,446	6,500,931	14,655	91,847,115
LIABILITIES					
Deposits and balances from banks	1,044,673	-	-	-	1,044,673
Current accounts and deposits from customers	21,937,679	30,410,137	1,272,804	2,636	53,623,256
Other borrowed funds	934,981	3,253,711	-	-	4,188,692
Subordinated loans from Parent	-	2,558,059	5,278,778	-	7,836,837
Other financial liabilities	154,545	320	11,981	-	166,846
Total	24,071,878	36,222,227	6,563,563	2,636	66,860,304
Net position	28,267,205	(3,229,781)	(62,632)	12,019	24,986,811

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	4,825,915	2,085,350	484,235	13,002	7,408,502
Available-for-sale financial assets	24,513,400	1,565,594	-	-	26,078,994
Amounts receivable under reverse repurchase agreements	5,679,695	4,370,280	-	-	10,049,975
Amounts due from banks	1,042,925	9,958,892	290,145	-	11,291,962
Loans to customers	6,850,199	15,861,655	5,828,969	-	28,540,823
Other financial assets	4,246	12,688	20	-	16,954
Total assets	42,916,380	33,854,459	6,603,369	13,002	83,387,210
LIABILITIES					
Deposits and balances from banks	703,902	-	-	-	703,902
Current accounts and deposits from customers	16,622,326	27,525,558	1,114,460	7,641	45,269,985
Other borrowed funds	1,222,559	3,635,079	-	-	4,857,638
Subordinated loans from Parent	-	5,023,342	5,530,967	-	10,554,309
Other financial liabilities	132,446	-	196	-	132,642
Total	18,681,233	36,183,979	6,645,623	7,641	61,518,476
Net position	24,235,147	(2,329,520)	(42,254)	5,361	21,868,734

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

	31 December 2018	31 December 2017
	AMD'000	AMD'000
10% appreciation of USD against AMD	(322,978)	(232,952)
10% appreciation of EUR against AMD	(6,263)	(4,225)

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

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments).

Corporate loan credit applications are originated and analyzed by the relevant relationship managers from the Commercial Banking Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Management Committee reviews the loan credit application on the basis of submissions by the Commercial Banking Department. Individual transactions are also reviewed by the Legal Unit, depending on the specific risks and pending final approval of the Management Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by independent appraisal companies or the Bank's specialists.

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits. Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks. The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2018 AMD'000	31 December 2017 AMD'000
Assets		
Cash and cash equivalents	10,751,314	6,983,923
Investment securities	30,954,555	26,078,994
Amounts receivable under reverse repurchase agreements	5,645,497	10,049,975
Amounts due from banks at amortised cost	9,251,050	11,291,962
Loans to customers at amortised cost	34,744,258	28,540,823
Other financial assets	53,811	16,954
Total maximum exposure	91,400,485	82,962,631

Collateral generally is not held against investments in securities, and loans to banks, except when securities are held as part of reverse repurchase activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 14.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 24.

As at 31 December 2018 the Bank has one debtor or groups of connected debtors (2017: one), credit risk exposure to whom exceeded 10 percent maximum credit risk exposure. The credit risk exposure for this customer as at 31 December 2018 is AMD 29,129,486 thousand (2017: AMD 24,801,931 thousand).

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	5,645,497	-	5,645,497	5,645,497	-
Total financial assets	5,645,497	-	5,645,497	5,645,497	-

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

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	10,049,975	-	10,049,975	10,049,975	-
Total financial assets	10,049,975	-	10,049,975	10,049,975	-

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

The Treasury Unit receives information from business units regarding the liquidity profile of their

financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Unit then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Unit. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO Committee, based on the reports of Risk Management and Treasury Unit.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2018							
Non-derivative liabilities							
Deposits and balances from banks	-	-	17,642	-	1,299,255	1,316,897	1,044,673
Current accounts and deposits from customers	17,045,177	3,423,329	10,588,943	16,086,487	8,222,000	55,365,936	53,623,256
Other borrowed funds	198,029	89,203	31,217	84,734	4,575,733	4,978,916	4,188,692
Subordinated loans from Parent	-	132,158	-	-	11,598,488	11,730,646	7,836,837
Other financial liabilities	159,378	120	7,320	29	-	166,846	166,846
Total	17,402,584	3,644,810	10,645,122	16,171,249	25,695,476	73,559,241	66,860,304
Credit related commitments	3,353,319	-	-	-	-	3,353,319	3,353,319

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2017							
Non-derivative liabilities							
Deposits and balances from banks	25,546	249	399	9,082	825,098	860,374	703,902
Current accounts and deposits from customers	11,290,651	3,959,779	6,935,450	14,953,485	10,036,920	47,176,285	45,269,985
Other borrowed funds	582,448	93,956	34,635	75,791	5,232,189	6,019,019	4,857,638
Subordinated loans from Parent	-	177,984	-	-	16,058,263	16,236,247	10,554,309
Other financial liabilities	127,242	-	5,400	-	-	132,642	132,642
Total	12,025,887	4,231,968	6,975,884	15,038,358	32,152,470	70,424,567	61,518,476
Credit related commitments	4,205,340	-	-	-	-	4,205,340	4,205,340

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	31 December 2018 AMD'000	31 December 2017 AMD'000
Less than 1 month	2,519,528	1,364,844
From 1 to 3 months	3,011,273	2,575,444
From 3 to 12 months	22,462,821	16,377,132
More than 1 year	3,856,139	8,765,925
	31,849,761	29,083,345

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	11,197,943	-	-	-	-	-	-	11,197,943
Investment securities	-	73,219	2,196,744	15,758,792	12,912,640	13,160	-	30,954,555
Amounts receivable under reverse repurchase agreements	5,645,497	-	-	-	-	-	-	5,645,497
Amounts due from banks at amortised cost	2,419,209	1,767,866	-	4,835,955	-	228,020	-	9,251,050
Loans to customers at amortised cost	414,848	1,117,388	4,442,298	17,777,650	7,714,489	-	3,277,585	34,744,258
Property, equipment and intangible assets	-	-	-	-	-	1,357,260	-	1,357,260
Other assets	69,959	48,485	43,280	925,084	-	30,564	5,488	1,122,860
Total assets	19,747,456	3,006,958	6,682,322	39,297,481	20,627,129	1,629,004	3,283,073	94,273,423
Liabilities								
Deposits and balances from banks	-	-	17,642	1,027,031	-	-	-	1,044,673
Current accounts and deposits from customers	17,029,888	3,392,582	25,789,931	7,382,676	28,179	-	-	53,623,256
Other borrowed funds	198,005	88,909	109,377	3,576,184	216,217	-	-	4,188,692
Subordinated loans from Parent	-	132,158	-	-	7,704,679	-	-	7,836,837
Current tax liability	-	-	50,000	-	-	-	-	50,000
Deferred tax liability	-	-	-	-	-	169,808	-	169,808
Other liabilities	196,788	154	10,725	816	6,101	-	-	214,584
Total liabilities	17,424,681	3,613,803	25,977,675	11,986,707	7,955,176	169,808	-	67,127,850
Net position	2,322,775	(606,845)	(19,295,353)	27,310,774	12,671,953	1,459,196	3,283,073	27,145,573

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	7,408,502	-	-	-	-	-	-	7,408,502
Available-for-sale financial assets	176,015	1,509,035	1,670,534	10,709,342	12,000,908	13,160	-	26,078,994
Amounts receivable under reverse repurchase agreements	10,049,975	-	-	-	-	-	-	10,049,975
Loans to banks	11,078,641	-	-	-	70,821	142,500	-	11,291,962
Loans to customers	393,242	1,734,876	4,084,012	11,269,619	7,552,274	-	3,506,800	28,540,823
Property, equipment and intangible assets	-	-	-	-	-	952,209	-	952,209
Other assets	16,137	7,427	46,383	719,953	7,474	-	-	797,374
Total assets	29,122,512	3,251,338	5,800,929	22,698,914	19,631,477	1,107,869	3,506,800	85,119,839
Liabilities								
Deposits and balances from banks	25,546	245	8,841	669,270	-	-	-	703,902
Current accounts and deposits from customers	11,281,635	3,918,109	20,965,415	9,072,472	32,354	-	-	45,269,985
Other borrowed funds	582,405	93,615	104,266	3,766,808	310,544	-	-	4,857,638
Subordinated loans from Parent	-	177,984	-	-	10,376,325	-	-	10,554,309
Other liabilities	-	-	-	-	-	372,883	-	372,883
Total liabilities	12,069,029	4,189,987	21,087,274	13,509,366	10,725,534	372,883	-	61,954,073
Net position	17,053,483	(938,649)	(15,286,345)	9,189,548	8,905,943	734,986	3,506,800	23,165,766

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported unaudited ratios of highly liquid assets to demand liabilities at 31 December 2018 is 407.22% (31 December 2017: 591.6%).

The above ratio is also used to measure compliance with the liquidity limit established by the CBA (60% minimum).

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's 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 behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

23 Capital management

The CBA sets and monitors capital requirements for the Bank.

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

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December 2018 and 31 December 2017:

	31 December 2018 AMD'000	31 December 2017 AMD'000
Tier 1 capital		
Share capital	26,249,100	23,825,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Accumulated profit /(loss)	3,444	(1,413,175)
Deductions	(1,071,769)	(894,809)
Total tier 1 capital	25,489,216	21,825,557
Tier 2 capital		
Fair value reserve	1,185,174	1,491,396
Subordinated loans	7,705,969	10,376,258
Deduction of tier 2 capital as per CBA regulations	-	(954,876)
Total tier 2 capital	8,891,143	10,912,778
Total capital	34,380,359	32,738,335
Total risk weighted assets	84,639,770	75,483,016
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	40.6%	43.4%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	30.1%	28.9%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset

and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

24 Credit related commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

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

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

	31 December 2018	31 December 2017
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	2,011,404	3,981,089
Credit card commitments	417,003	216,948
Guarantees and letters of credit	924,912	7,303
	3,353,319	4,205,340

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

As at 31 December 2018 of these credit related commitments, AMD 1,699,946 thousand (31 December 2017: AMD 3,825,375 thousand) are to five customers (31 December 2017: four customers). This exposure represents a significant credit risk exposure to the Bank.

25 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 500,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 110,000 thousand insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) **Taxation contingencies**

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

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

26 **Related party transactions**

(a) **Control relationships**

The Bank's parent Company is "Byblos Bank S.A.L", which owns 100 % of the share capital. The parent Company produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

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

Total remuneration included in personnel expenses for the years ended 31 December 2018 and 31 December 2017 is as follows:

	1 January 2018	1 January 2017
	31 December 2018	31 December 2017
	AMD'000	AMD'000
Short-term employee benefits	223,997	208,300

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

	31 December 2018	Average effective	31 December 2017	Average effective
	AMD'000	interest rate, %	AMD'000	interest rate, %
Statement of financial position				
Loans issued (gross)	206,321	10.8%	213,657	10.8%
Loan impairment allowance	(741)		(432)	
Deposits received	1,364,268	3.7%	1,290,501	4.2%

Loans to related parties are in Armenian Dram and foreign currency and repayable from 1 to 20 years based on the type of the loan. Loans are secured by the appropriate type of collateral, as presented in note 12 (c) (iii).

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the nine months ended 31 December 2018 and 2017 are as follows:

	1 January 2018 31 December 2018 AMD'000	1 January 2017 31 December 2017 AMD'000
Profit or loss		
Interest income	22,435	20,215
Interest expense	(49,494)	(45,512)
Impairment release / (loss)	78	(59)

(c) Transactions with other related parties

Other related parties include the Parent company and its fellow subsidiaries. The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for year ended 31 December 2018 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	703,961	-	40,554	-	-	-	744,515
- in EUR	84,882	-	112,255	-	-	-	197,137
- in other currencies	4,431	-	-	-	-	-	4,431
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	-	-	-
Other borrowed funds							
- in USD	-	-	-	-	3,064,294	8.3%	3,064,294
Subordinated loans from Parent							
- in USD	2,558,058	6.5%	-	-	-	-	2,558,058
- in EUR	5,278,778	6.5%	-	-	-	-	5,278,778
Profit or loss							
Interest income	11,657	-	-	-	-	-	11,657
Interest expense	(651,774)	-	-	-	(249,834)	-	(901,608)
Fee and commission income	8,332	-	-	-	-	-	8,332
Fee and commission expense	(9,036)	-	(59)	-	-	-	(9,095)
Professional services	(3,775)	-	-	-	-	-	(3,775)

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	521,879	-	92,776	-	-	-	614,655
- in EUR	37,467	-	12,175	-	-	-	49,642
- in other currencies	1,293	-	-	-	-	-	1,293
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	-	-	-
Other borrowed funds							
- in USD	-	-	-	-	3,066,241	8.3%	3,066,241
Subordinated loans from Parent							
- in USD	5,023,341	6.5%	-	-	-	-	5,023,341
- in EUR	5,530,968	6.5%	-	-	-	-	5,530,968
Profit or loss							
Interest income	3,853	-	-	-	-	-	3,853
Interest expense	(653,727)	-	-	-	(236,058)	-	(889,785)
Fee and commission income	62	-	-	-	-	-	62
Fee and commission expense	(6,557)	-	(103)	-	-	-	(6,660)
Professional services	(3,238)	-	-	-	-	-	(3,238)

Cash and cash equivalents held with related parties are not secured.

27 Fair values of financial instruments

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments except for unquoted equity securities and AMD denominated loans to customers and term deposits from customers as at 31 December 2018 and 31 December 2017 approximate their carrying amounts. The fair value of unquoted equity securities with a carrying value of AMD 13,160 thousand as at 31 December 2018 (31 December 2017: AMD 13,160 thousand) could not be determined.

The fair values of loans to customers and current accounts and term deposits are lower than their carrying values of AMD 34,744,258 thousand (31 December 2017: AMD 28,540,823 thousand) and AMD 53,623,256 thousand (31 December 2017: AMD 45,269,985 thousand) by AMD 1,857,364 thousand (31 December 2017: AMD 1,862,573 thousand lower) and AMD 115,576 thousand (31 December 2017: AMD 7,768 thousand lower) respectively, as at 31 December 2018. The fair value measurements of loans to customers, current accounts and term deposits from customers are categorized into Level 2 respectively in the fair value hierarchy.

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

AMD'000	Level 1	Level 2	Level 3	Total
Investment securities				
- Debt instruments	-	30,941,395	-	30,941,395

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

AMD'000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	26,065,834	-	26,065,834

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

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