CENTRAL
BANK
OF ARMENIA

# ANNUAL
# REPORT








CENTRAL
BANK
OF ARMENIA

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# ANNUAL REPORT

2018

YEREVAN 2019

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**Arthur**
**JAVADYAN**

Governor of the Central Bank
of Armenia

Dear reader,

This is the annual report of the Central Bank of the Republic of Armenia for the year 2018.

In 2018 the Central Bank carried out its activities in line with the new provisions introduced to the Law on the Central Bank of Armenia as part of constitutional reforms. The primary goals of the Central Bank, according to the amendment, are to maintain price stability and financial stability in the Republic of Armenia. The Central Bank always attached importance to financial stability, but with legislative change it was identified as an ultimate goal.

Looking to both goals at the same time is nowadays an imperative to global developments, and the Central Bank has attempted to fulfil them throughout the year.

In ensuring price stability, the Central Bank has implemented an expansionary monetary policy in a low inflation environment: the policy rate persisted at a low level throughout the year, even in spite of interest rate increases globally. During 2018 inflation expectations weakened; demand for the national currency has increased, reflecting the structure of deposits of households that has grown by value. A sustainable financial system has allowed us to increase the intermediation. Lending growth rates proved high not only in consumer and mortgage but industry and construction segments as well. With a view to increasing the accessibility of credit in priority sectors of the economy, the Central Bank cooperated with the Government of Armenia and international partner financial institutions.

Moderate monetary conditions and a macro-prudential policy pursued by the Central Bank sustained continued access to financial services while the maturity of loans and their interest rates tended to decrease, which is a result of increased competition in the financial system.

In 2018 the International Monetary Fund and the World Bank carried out a financial system's assessment program, with round-up results showing that the financial system was estimated as stable and the regulatory and supervisory frameworks nearly 97% compliant with the Basel Principles of Banking Supervision. The banking system is estimated to be sufficiently liquid and capitalized.

Year 2018 marked a landmark event the 25th anniversary of the national currency of the Republic of Armenia, a key symbol of statehood. The third series of banknotes with best security features have entered into circulation and are expected to serve longer due to increased quality.

The Central Bank will continue to ensure price stability and financial stability two pillars of macroeconomic stability, using its authority vested under the law, and the financial system will be able to serve the economy in the long-term perspective.

# STAGES
## OF THE BANK'S DEVELOPMENT

| | |
|---|---|
| 1993 | **Introduction of the national currency** |
| 1994 | **Formulation of the monetary policy** |
| 1996 | **Adoption of core legislation on the Central Bank and banking** |
| 1996-2001 | **Creation and implementation of the national payment and settlement system** |
| 2002-2004 | **Development of a regulatory framework for financial market participants and setting-up of infrastructures** |
| 2005 | **The Central Bank as a megaregulator and responsible for financial stability** |
| 2006 | **Inflation targeting** |
| 2007 | **Protection of consumer rights and awareness of financial services** |
| 2007 - to date | **Development of a non-bank sector** |
| 2012 - to date | **Institutional reforms and infrastructure developments** |
| 2018 | **Constitutional amendments: introduction of financial stability as a second primary objective** |

# THE BOARD
## OF THE CENTRAL BANK OF ARMENIA



**Arthur JAVADYAN**
Governor
of the Central Bank



**Nerses YERITSYAN**
Deputy Governor



**Vakhtang ABRAHAMYAN**
Deputy Governor



**Oleg AGHASYAN**



**Ashot MKRTCHYAN**



**Armenak DARBINYAN**

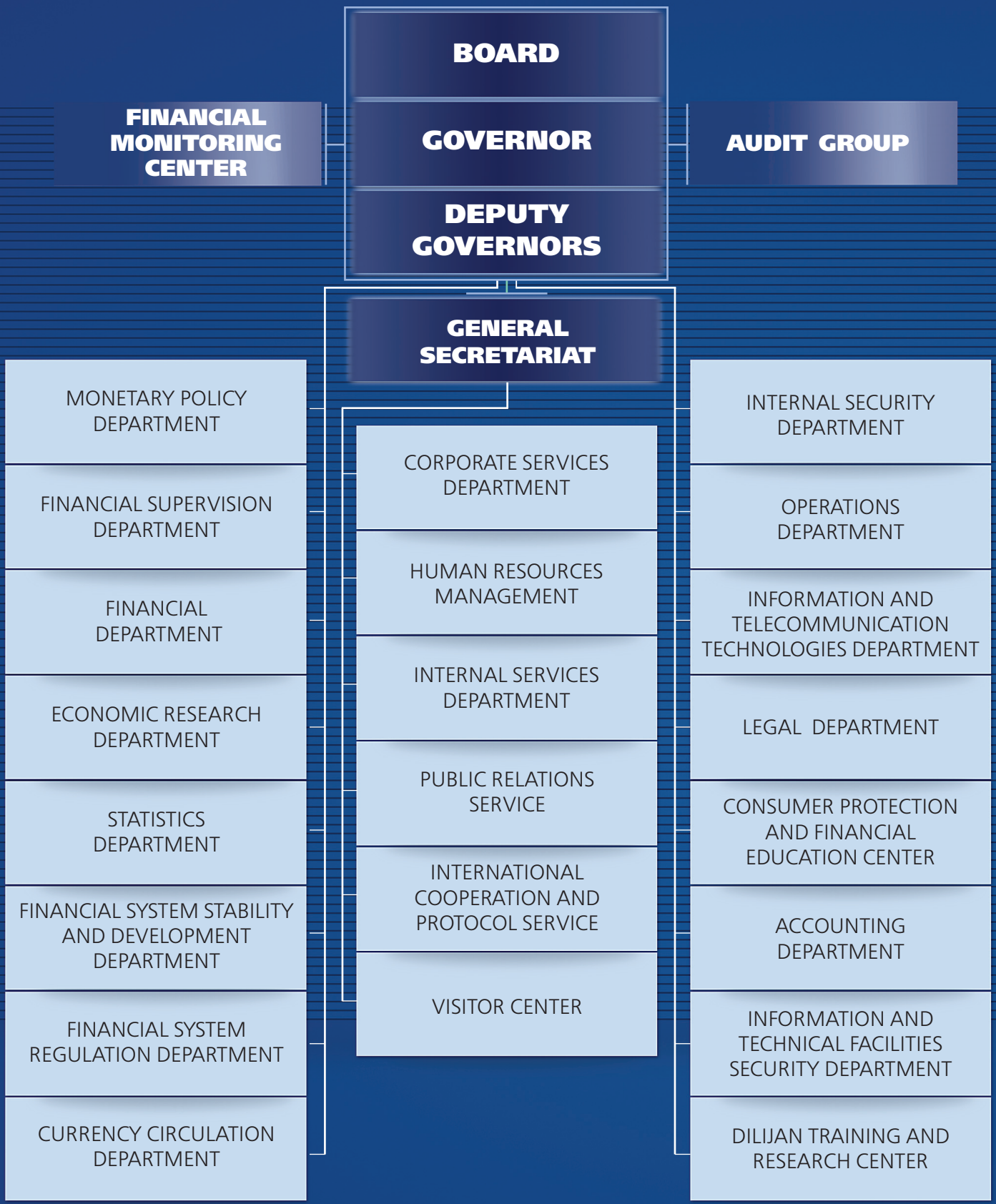


**Arthur STEPANYAN**



**Martin GALSTYAN**

# STRUCTURE
## OF THE CENTRAL BANK OF ARMENIA







CENTRAL
BANK
OF ARMENIA

# 1

# CENTRAL BANK

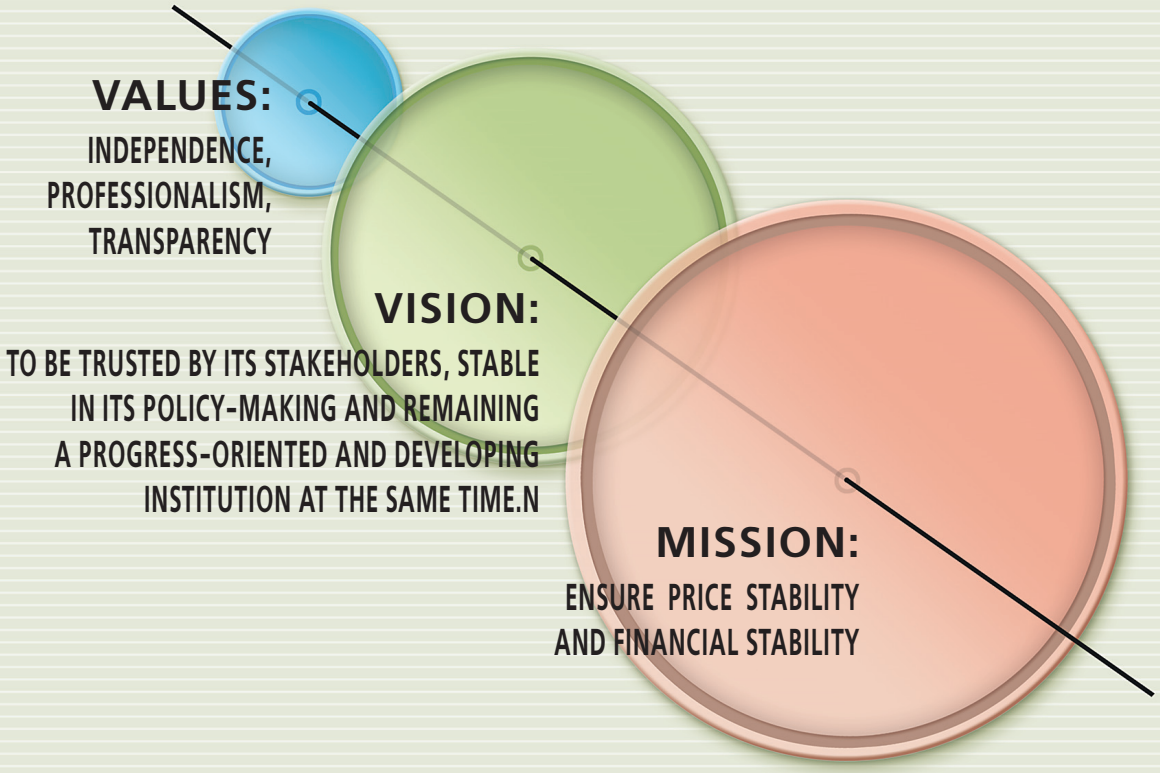
## OF THE REPUBLIC OF ARMENIA

**About the Central Bank**

**Executive Summary:**
**On strategic directions of the Central Bank**

# ABOUT THE CENTRAL BANK

## Values, vision, mission




### VALUES

**Independence:** The Central Bank is independent in implementing its activities in the context of decision-making process and deciding on the tools to achieve its goal.

**Professionalism:** The Bank's ability to respond to challenges in a timely and high-quality manner through professional staff.

**Transparency:** Providing stakeholders with all relevant information on its activity in an open, clear and timely manner.

### VISION

To be trusted by its stakeholders, stable in its policy-making and remaining a progress-oriented and developing institution at the same time.

### MISSION

Maintain price stability and financial stability.

## Main objectives of the Central Bank are:

- **to maintain price stability**
- **to maintain financial stability**

**In the Republic of Armenia**

## Other objectives of the Central Bank:*

- Ensure stability, liquidity, solvency, and conditions necessary for the normal activity of the financial system of the Republic of Armenia collect, summarize and publish monetary and financial sector, balance of payment, international investment position and external debt statistics,
- Collect, to tabulate, and to publish monetary statistics and statistics on the financial system, the balance of payments, the international investment position, and external debt,
- Create and develop an efficient payment and settlement system,
- Issue the currency of the Republic of Armenia and organize and regulate the currency circulation,
- Organize and regulate the fight against money laundering and terrorism financing,
- Secure the conditions necessary for the protection of investors in securities, for forming and retaining a system of fair pricing of securities in the market, and for the regulated and normal activity and development of a fair, transparent, and trustworthy market of securities,
- Secure the conditions necessary for protecting the rights and lawful interests of consumers in the financial system.
- Ensure free and fair economic competition in the financial system

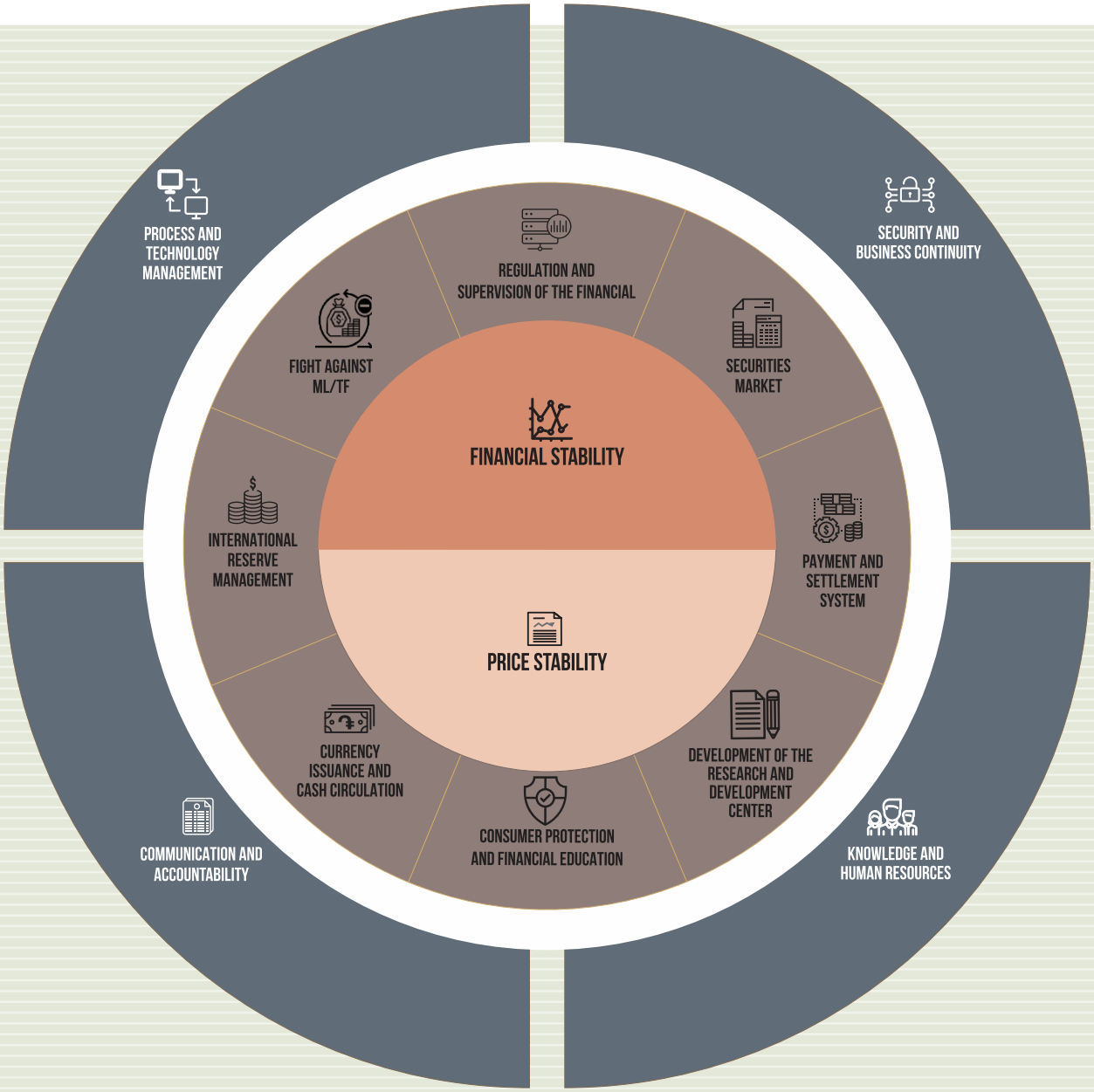
* *See details in RA Law on CentralBank (https://www.arlis.am/DocumentView.aspx?DocID=121585)*

# EXECUTIVE SUMMARY:
# ON STRATEGIC DIRECTIONS OF THE CENTRAL BANK

On strategic directions of the Central Bank The 2018-2020 strategy establishes the strategic areas of the Central Bank and describes in which direction they develop (Picture 1). It focuses on the further development of the Central Bank's achievements in the previous years and setting up of new trends driven by challenges today.

**The Central Bank follows international best practice and criteria while implementing its strategy.**

**Picture 1:** Strategic priorities of the Central Bank of Armenia




- Institutional development areas
- Strategic directions for 2018-2020
- CBA policies framework

# MAIN OBJECTIVES OF THE CENTRAL BANK

**Maintaining price stability:** The monetary policy carried out by the Bank in 2018 under the inflation targeting strategy was further steered to maintaining price stability and anchoring public expectations around the inflation target. The year was outstanding for both landmark political events domestically, and contractionary fiscal policy implementation and reduced inflationary pressures transmitted from the external environment. Under such conditions, aggregate demand and inflation environment began to weaken gradually from high levels observable early in the year. In such a situation, the Bank continued carrying out **expansionary monetary policy** in 2018, looking to the fulfilment of its main objective in the medium run. Inflation fluctuated around 2.5% during the year and amounted to 1.8% at the end of December.

**Maintaining financial stability:** The Financial Sector Assessment Program (FSAP) of Armenia, a comprehensive framework intended for analyzing the financial systems, was carried out in 2018 together with the International Monetary Fund and the World Bank.

According to the IMF Executive Board assessment, Armenia's financial system was estimated as stable and the system's compliance with the Basel Principles of Banking Supervision, high, 97% (93% in 2012, 70% in 2005).

The stability of the financial system has strengthened, and the flexibility has increased, which is a safeguard for the continued functioning of the financial system, according to the report.

In 2018 the Central Bank continued its efforts to enhance financial stability, took measures to improve the regulatory framework and increase the effectiveness of supervision. In 2018 the banking system demonstrated high activity in loan and deposit markets. In the meanwhile, the financial system's assets-to-GDP ratio and lending-to-GDP ratio have grown by 4.0 and 4.1 pp to 97.6% and 53.9%, respectively.

# OTHER OBJECTIVES OF THE BANK

**Financial system regulation and supervision:** A number of legislative amendments were initiated during the year in the context of improvement of the financial system's regulatory framework. In 2018 the Central Bank continued taking on its supervisory functions to ensure the stability of the financial system, measure the financial organizations' risk exposure, compliance with the legal framework, combatting money laundering and terrorism financing, protection of consumer rights and interests in the financial system and other relevant aspects. Violations revealed as a result of supervision were eliminated and measures were taken to prevent such violations in the future.

**Securities market regulation:** The Bank continued its cooperation with international organizations for developing regulation and supervision of the securities market. A multilateral memorandum of understanding, cooperation and exchange of information was signed with the International Organization of Securities Commission (IOSCO) in January of 2018. In the reporting period, the Bank has become a member of the International Association of Capital Markets (ICMA), which provides wide opportunities for introducing best standards to the capital market.

**Payment and settlement system regulation:** In 2018 more work was done by the Bank for further development and reliability of payment and settlement systems, expanding the volume of non-cash payments and improving the payment and settlement systems regulatory framework. In 2018, as part of the FSAP, **the IMF and the World Bank** jointly examined Armenia's payment and settlement system and concluded that credit, liquidity and operational risk management is satisfactory.

**Developing training and research capacities:** In 2018 the Dilijan Training and Research Center continued its activity in three main areas: research, international cooperation and social responsibility. More research on Armenian and global economy was carried out and

published as well as international seminars were held at the Dilijan TRC in 2018. The aim of the events is to enhance the Central Bank personnel's research capacities and to raise the TRC's rating as a platform where representatives of central banks, financial and international organizations in the region and Eastern Europe can meet and do research together. The Dilijan TRC continued hiring more specialists during 2018, making the number of employees to 209.

**Consumer protection in the financial system, and financial education:** The Bank continued efforts to protect consumers in the financial system by making sure that financial service providers practice a fair business conduct and that an appropriate institutional environment and a financial education framework are in place.

In 2018, requirements to providing information to consumers on mortgage and agricultural loans and to the disclosure of such information were established and clear, complete and affordable extracts and essential terms of service were developed.

Piloting of the program "Financial Education at the School" carried on in 14 schools, and in a period October-December a total of 2532 teachers from 346 schools in Yerevan and the regions passed a respective training in the framework of that program. In June, the results on the feedback from teachers were rounded up which made it possible to be more specific about financial education standards and programs on such subjects as "Me and the Surrounding World", "Mathematics", "Algebra", and "Social Science".

**Issuance of currency and organizing money circulation:** In the reporting period the Bank issued the third series of banknotes, using printing technology innovations and, hence, tackling some most important aspects in security features of the Dram. The new banknotes have been printed on composite materials which provide greater durability and longer service life of banknotes in circulation. The use of state-of-the-art security features that are vivid and well-visible makes it easier to recognize and authenticate the banknotes. The banknote structure by type has improved as the Bank introduced a new nominal value, 2 000, to the banknotes. The third series of banknotes are represented by nominal value 1 000, 2 000, 5 000, 10 000, 20 000 and 50 000 drams.

To publicize national, historical, cultural, spiritual values of Armenia and to satisfy the numismatic demand of collectors, in 2018 the Bank

issued commemorative coins of precious metals, which are dedicated to the anniversaries of renowned Armenians and landmark events.

**Management of international reserves:** The Bank continued its strategy of managing international reserves of Armenia by taking a least-risk-involvement approach, **to ensure** the safety, liquidity and effectiveness of management of the reserves.

**Organizing and regulating the framework to combat money laundering and terrorism financing:** The assessment of national AML/CFT risks was accomplished in 2018. In particular, to identify and evaluate AML/CFT threats to Armenia, a variety of qualitative and quantitative indicators were used to analyze previous crimes on money laundering, latent criminality, the risk of AML/CFT abuse by legal entities, commercial and non-commercial organizations, the AML/CFT risk associated with new technologies.

# INSTITUTIONAL DEVELOPMENT

**Security and business continuity:** In light of the global trends in information security, in 2018 the Central Bank emphasized the need to maximize the reliability of cybersecurity in the financial system and ensure its normal functioning in emergency situations.

In the reporting period the Bank developed a concept of response center to incidents of cybersecurity in the financial sector. The center aims at raising overall level of cybersecurity in Armenia's financial system, cutting the number of unwanted incidents and reducing the response time.

**Knowledge and human resources:** In view of encouraging lifelong education and development, the Central Bank further offered its employees opportunities steered at their professional development, including by way of sharing in-house knowledge and experience with co-workers/colleagues.

By the end of the year, the employees of the Central Bank numbered 734 425 women and 309 men, with an average age of 40. During the year 51 employees left the Bank. In 2018 too, the policy was to consistently increase staff professionalism, as a result of which 320 employees benefited training in Armenia and abroad. As of 2018, 63 employees have earned international qualification in financial, accounting, auditing, insurance and information technology areas.

**Communication and accountability:** In 2018 the Central Bank communicated its actions, programs and initiatives in the field of monetary policy, maintaining financial stability and financial supervision to the financial market participants and the public, and held discussions on various issues of interest, including, particularly, presentation of the third series Armenian banknotes.

In 2018 the Visitor Center launched its new website (visitorcentre.cba.am, museum.cba.am); now public schools, universities, organizations and individuals are able to reserve their visits electronically, it allows a 360-degree virtual tour for everyone wishing to see Armenian banknotes and coins, new issues of commemorative coins, to learn their security features and get financial knowledge via

educational games, to read brief narrative of professional literature acquired by the Central Bank, and more.

In 2018 the Visitor Center hosted 10 804 visitors in Yerevan, which is 10% more than last year (9 815 visitors in 2017).

**Cooperation with international institutions:** In 2018 the Bank enhanced its cooperation with partner central banks, internationally reputable financial and educational establishments.

The year saw more agreements, treaties and memoranda of understanding signed with foreign central banks as part of bilateral arrangements and intergovernmental committees.

# 2 MAIN OBJECTIVES

**Maintaining price stability**

**Maintaining financial stability**

# MAINTAINING PRICE STABILITY

## Monetary policy

According to the provisions set out in the Armenian Constitution and the Law on the Central Bank, **maintaining price stability and financial stability are the main objectives of the Central Bank,** by which the Bank contributed to achieving a long-term sustainable economic growth. For ensuring price stability, the Bank set a medium-term inflation target and decided on such a target in order to anchor public expectations and secure a path to streamlined macroeconomic stability. In Armenia, the inflation target is outlined in the monetary policy programs of the Bank, medium-term expenditures frameworks of the Armenian Government, the Republic of Armenia laws on state budget as well as in sustainable development projects. The Central Bank independently decided on the monetary policy strategy it carries out, the interim and operational objectives and monetary instruments under its operational independence.

**In the context of inflation targeting strategy of the Bank,** a projected path to bringing inflation to the target served an intermediate target and short-term interest rate an operational target for the Bank. Target level of the short-term interest rate is the refinancing rate which the Board of the Bank sets, normally, eight times in a year according to a pre-announced timetable and which serves a benchmark for the Bank's operations in the financial market. The 7-day repo agreement is the main instrument of monetary policy and is used by the Bank to manage the liquidity in the financial system.

In light of inflation targeting strategy, the Central Bank communication to the public is crucial, and the main way of doing it is through publishing quarterly inflation reports[1]. The inflation report presents to the public the actual macroeconomic and monetary environments for any given period, the pace of fulfilling the Bank's primary goal, analyzing and commenting on the factors and causes why inflation deviated from the target value. The

1 Please see the periodicals "Inflation Report" of the Central Bank: (www.cba.am).

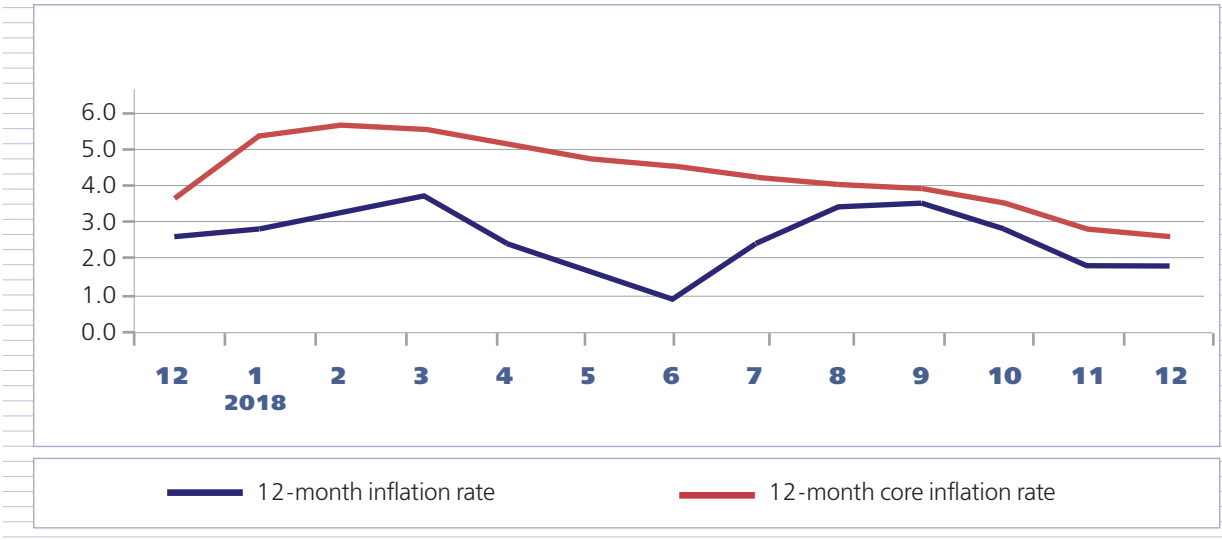
report provides main directions of the monetary policy to be implemented by the Central Bank and the projected path of inflation in order to fulfil the inflation target in the forecast horizon. Following the principles of transparency of the Bank's policy, the report aims to provide the general public with most comprehensive and understandable information on the main objective of the Central Bank, thus raising public confidence in the Bank.

## Implementation of monetary policy

According to the Monetary Policy Program of the first quarter of 2018, the inflation environment would further be expanding during the year primarily driven by invigorated domestic demand thanks to the Bank's expansionary monetary policy as well as inflationary effects transmitting from world commodity markets.

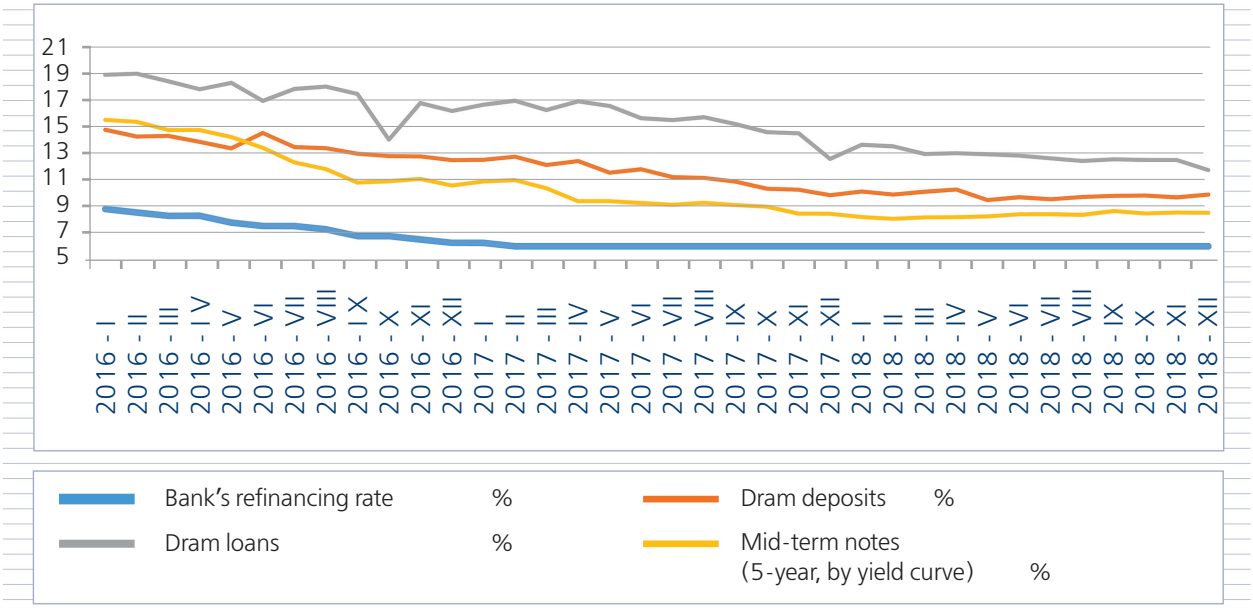
Actual developments showed that the 12-month inflation had gradually subdued from a relatively high level observable early in the year, largely due to weakened domestic demand, which, in turn, had incurred the impact of a tight fiscal policy carried out by the Government. In the meanwhile, inflationary pressures transmitted from the external sector have gradually softened as global economic growth rates somewhat slowed and prices in commodity markets settled on relatively low levels. Under these influences, the **12-month core inflation** has dropped from 5.6% at the beginning of the year to 2.6%, and the **12-month inflation** fluctuated within an average 2.5% level, amounting to 1.8% in end December.

**Figure 1: In 2018 the 12-month inflation fluctuated within an average monthly range of 2.5%**



In view of the aforementioned developments, as well as the non-inflationary effects expected from external and domestic economies, the Central Bank carried out an expansionary monetary policy during 2018. Throughout the entire year, the Board of the Bank has kept the policy rate at a low level, even on the back of interest rate increases globally, and estimated that it was expansionary enough for recovery of the domestic demand and fulfilment of the inflation target in the forecast horizon. It should be noted that the stimulating effect of monetary policy was reflected in the financial market where interest rates on dram loans have fallen.

**Figure 2: Interest rates of the Armenian financial market**



# Monetary policy implementation: improvement and advancement

The outcome of developed and refined **Forecast and Policy Analysis System (FPAS) of the Bank** is the improvement in the quantitative and qualitative components of the forecasts and policy analysis. The system helps the Board of the Bank to have a clear understanding of the macroeconomic situation and make more informed decisions about the directions of the monetary policy.

Improving the FPAS is continuous and in a longer-term perspective it has two aspects:

- Inclusion of specificities of the Armenian economy into the current system and advancing it technically,
- Improvement of the current system through transition to the Dynamic Stochastic General Equilibrium (DSGE) model framework.

The following activities were carried out in the framework of the first aspect in 2018:

1. Further research was done to incorporate the results of inflation expectations and confidence in the policy into the FPAS. A preliminary version of the semi-structured model was developed based on a so-called learning mechanisms where economic agents own limited information on the structure of the economy and are only able to learn and evaluate economy criteria over time, in particular, the level of confidence in the monetary policy of the Central Bank. Now the calibration of the model is being finalized and the data on Armenia filtered through the model, after which it will be ready to introduce.

2. Research of two new short-term forecasting methods the Dynamic Factor Model (DFM) and Three-Phase Regression Filter (3PRF) was conducted. The quality of short-term forecasts of macroeconomic indicators will improve in 2019 as these forecasting methods noted above are introduced.

3. The methods that evaluate GDP gap and potential GDP were updated technically, the two new methods were implemented, which allow to assess and analyze the potential of the economy not only from the demand point of view but that of supply or the efficiency of the resources used.

4. Research was carried out to determine how the direct and indirect channels of exchange rate affect inflation.

The second aspect involved further work to building the DSGE model that describes demand side of the economy, which is aimed at disintegrating the main model results by demand components along the horizon.

## Statistics

In 2018 the Bank continued delivering timely and accurate statistical data to the public[2]. Further work was done to broaden the scope of and accessibility to statistical data, improve the methodology for data collection and alignment with international criteria.

## New data collection and other developments in statistics

In 2018 a procedure on how non-public investment funds operating in Armenia should report to the Central Bank was established. To this end, the Statistics Department began collecting and processing statistical information on non-public investment funds.

For developing external accounts statistics, the Central Bank started to receive additional information from the Statistics Committee of Armenia on external debt of non-financial organizations of Armenia. As a result, the quality of non-financial organizations' foreign investment statistics has significantly improved.

2 The Bank publishes the statistical data in section "Statistics" of its homepage (www.cba.am).

# MAINTAINING FINANCIAL STABILITY

In view of maintaining financial stability in Armenia, further work was done in 2018 to implement a set of regulations for Basel 3 Accord proposed by the Basel Committee on Banking Supervision. Particularly, essential information was collected and appropriate analytics conducted for smooth implementation of Basel 3 liquidity requirements. Analytical work was carried out to reveal and evaluate financial risks, which are mainly aimed at increasing the efficiency in making decisions on a countercyclical capital buffer, and the methodology for calculating countercyclical capital buffer, capital **conservation buffer** and **buffer for systemically important banks**, application limits and schedule were finalized.

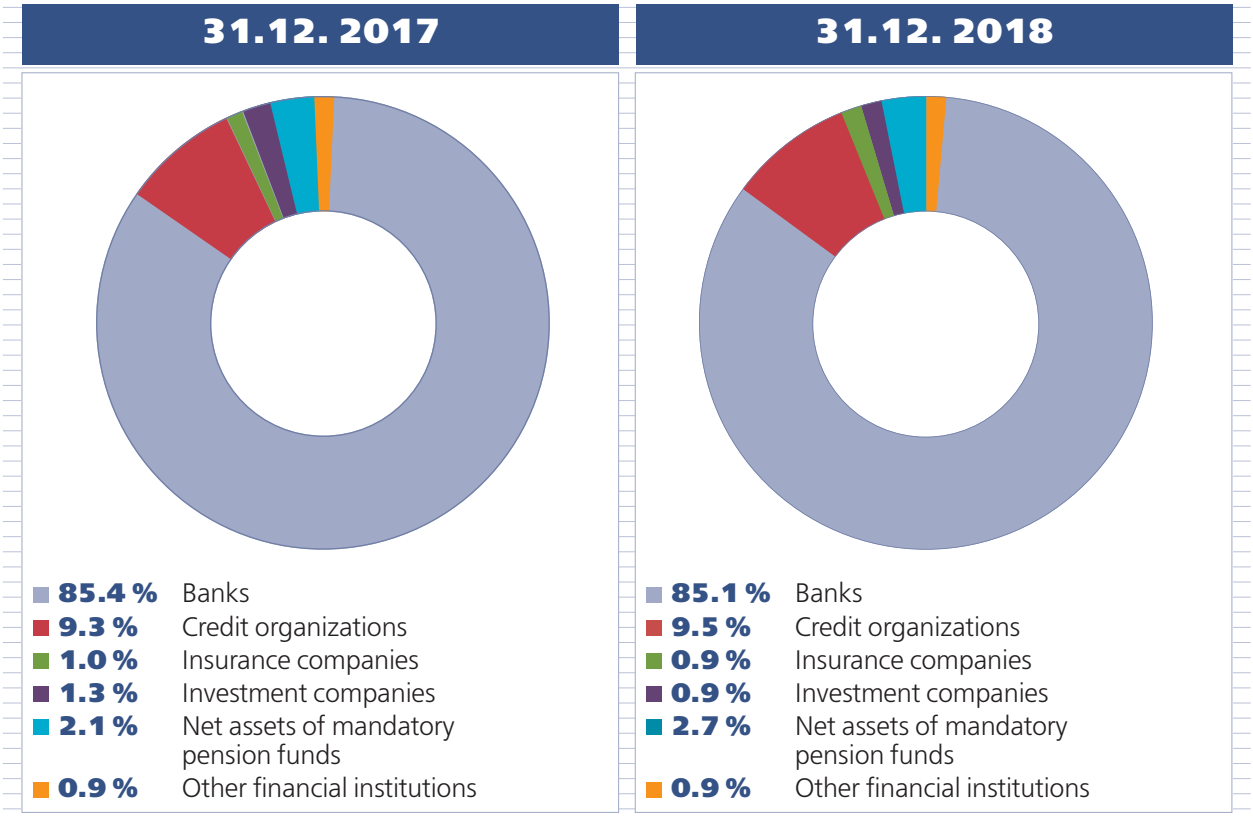
In 2018 the International Monetary Fund and the World Bank jointly carried out Armenia's Financial System Assessment Program. According to round-up results, the financial system was estimated as stable and highly compliant (97%) with the Basel Principles of Banking Supervision. The stability of the financial system has strengthened, and the flexibility has increased, which is a safeguard for the continued functioning of the financial system. Armenia's banking system, the report said, had been able to withstand the consequences of the 2014 economic downturn, and a handful of macroprudential measures taken came to help the system endure the crisis.

In view of the need to reduce dollarization, continued improvement in implementing the Basel 3 requirements and risk-based supervision, the IMF Executive Board made a number of recommendations. Particularly, it has proposed to introduce new liquidity and capital requirements, redefine internal policies and procedures for assessment of capital adequacy, calculation of non-performing and revised loans and financial accounting of SME lending and have them comply with best international practices.

**In 2018 the financial system assets-to-GDP ratio and the economy lending-to-GDP ratio grew by 4.0 and 4.1 pp to 97.6% and 53.9%, respectively.**

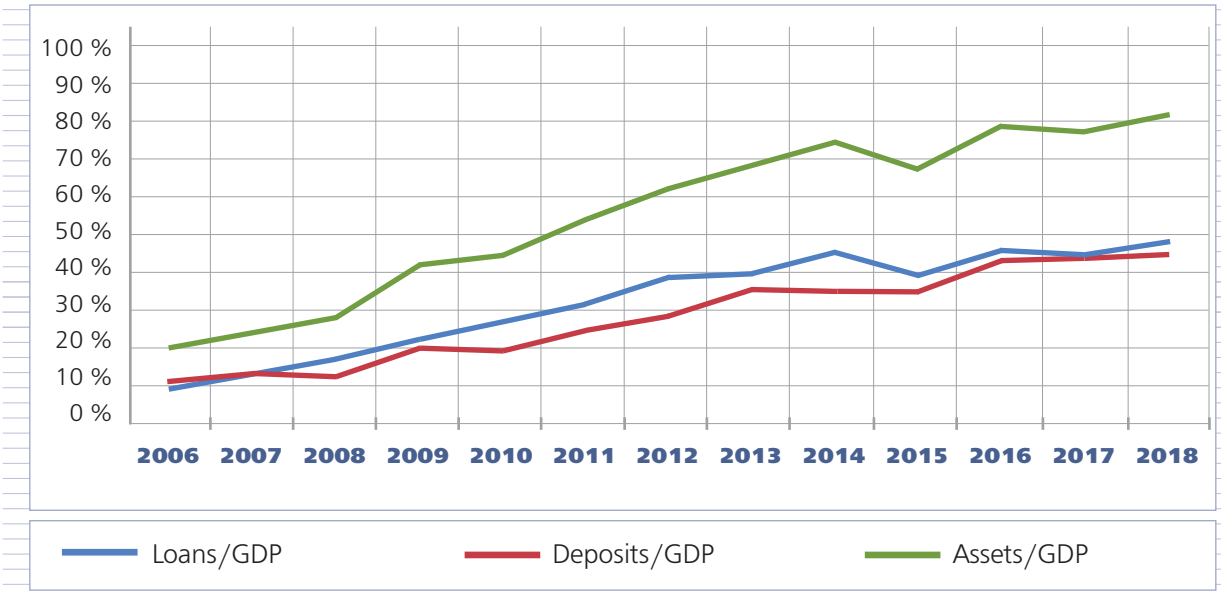
The **banking sector** remains the largest pillar of the financial system; it accounts for 85.1% of the system's assets (see Figure 3). The share of insurance, securities markets and other system participants is small and the impact of their activity on the stability of the financial system is not significant yet.

**Figure 3: Assets of the financial system**




Consequently, the main target of financial stability has been the banking system. The banking system assets-to-GDP and economy lending-to-GDP ratios were 83.1% and 48.9%, respectively (see Figure 4).

**Figure 4: Financial intermediation in the banking system**




The capital adequacy and liquidity ratios that describe the banking system stability have reduced. Specifically, in the reporting period the total capital adequacy ratio has dropped by 1.0 pp to 17.7% (minimum threshold: 12.0%). On the back of expanding loan portfolio, the banking system liquidity trended downward even though respective regulatory indicators persisted almost twice as high as minimum thresholds. As of the end of 2018, commercial banks' total and current liquidity ratios have amounted to 27.3% and 116.6% (minimum thresholds: 15.0% and 60.0%), respectively.

The share of non-performing loans and receivables ("watched", "non-standard" and "doubtful" risk categories) has decreased by 0.8 pp to 4.4% in total loans and receivables.

**Figure 5:** Interest rate of loans to legal entities

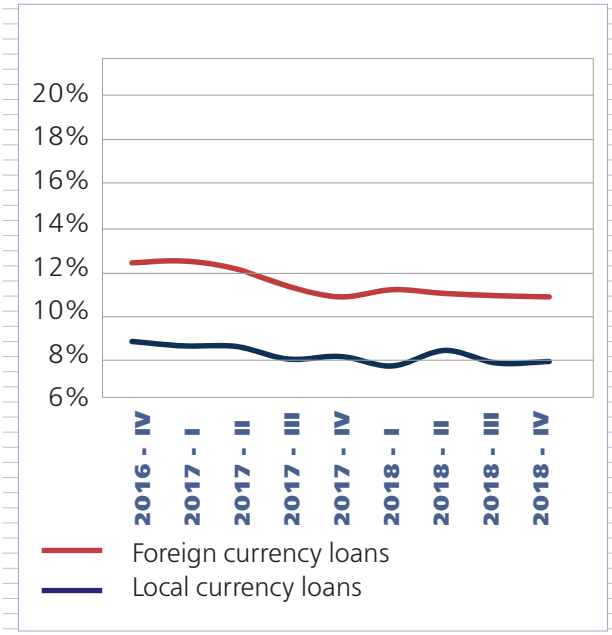
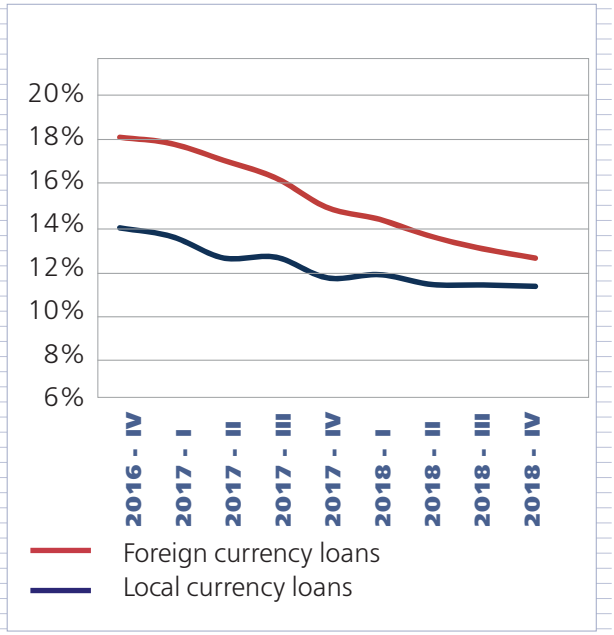



**Figure 6:** Interest rate of loans to individuals



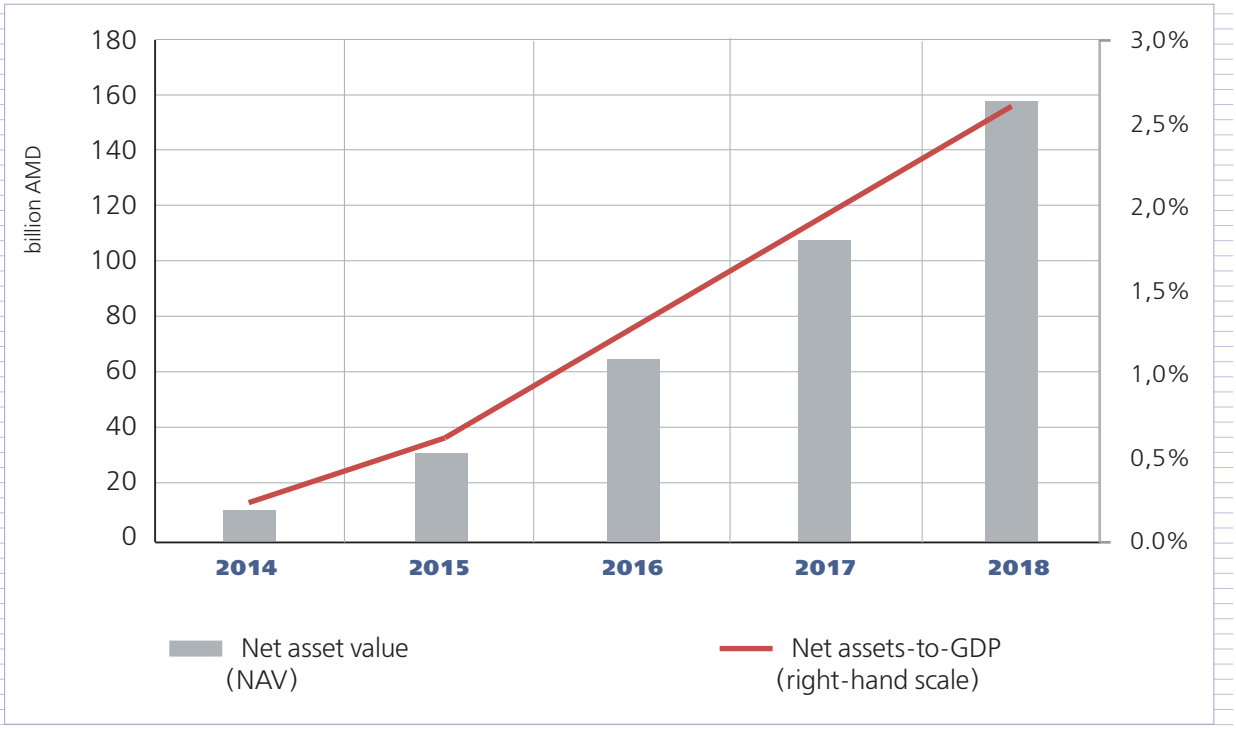

The interest rates of loans provided by the banking system followed a downward trend over the year.

Attention was also paid to financial risks and key indicators of other financial system participants:

- total capital of credit organizations has increased by 17.2%, liabilities by 20.6%, assets by 14.4%;
- assets of insurance companies have grown by 4.4%, liabilities by 7.3%, but capital has reduced by 0.2%;
- total capital of investment companies has increased by 8.4% but liabilities and assets have decreased, respectively, by 15.7% and 12.0%;
- net assets of mandatory pension funds managed by asset managers have grown by 48.9% to AMD 157 billion.

At the end of the year, the net assets-to-GDP ratio of pension funds reached 2.6%.

**Figure 7: Value of net assets of pension fundsValue of net assets of pension funds**



# 3 OTHER OBJECTIVES OF THE BANK

**Regulation and supervision of financial system**

**Securities market regulation**

**Payment and settlement system regulation**

**Developing training and research capacities**

**Consumer protection and financial education**

**Currency issuance and organizing money circulation**

**International reserves management**

**Organizing and regulating the framework to combat money laundering and terrorism financing**

# REGULATION AND SUPERVISION OF FINANCIAL SYSTEM

In 2018 the Central Bank continued taking on its supervisory functions to maintain the stability of the financial system, measure the financial organizations' risk exposure, compliance with the legal framework, while making sure an effective framework to combat money laundering and terrorism financing is in place and interests of consumers in the financial market are duly protected.

The Central Bank monitors the activities of financial institutions, carries out analyses on their financial position, identifies and evaluates risks, measures the compliance of their activity with the legal framework and exercises other aspects of oversight under the law.

In 2018 supervisory inspections at financial institutions for risk disclosure, business conduct, reliability of published information and other aspects continued. During the year, the Central Bank conducted 136 inspections at financial institutions, including 33 inspections at banks, 1 target and 1 all-purpose inspection at credit organizations, 3 target inspections at insurance companies, 5 inspections at insurance agents, 2 all-purpose inspections at investment companies, and 91 inspections at other participants of the financial market (exchange offices, pawnshops, payment and settlement organizations, etc.).

Infringements revealed through supervision were remedied and measures were taken to prevent the ones in the future.

There were certain changes in the field of financial regulation in 2018. Specifically, amendments and additions were made to Armenian laws on "Asset Securitization and Assets-Backed Securities", "Investment Funds", "Foundations", "Joint Stock Companies", "Mortgage-Backed Bonds" and "Bankruptcy of Banks, Credit Organizations, Investment Firms, Investment Fund Managers and Insurance Companies", and the Civil Code of the Republic of Armenia.

These amendments aim to:

- eliminate barriers to securitization processes that have existed so far,
- make sure existing legislation is aligned with current developments,
- achieve clearer and more effective regulatory solutions for investments,
- create incentives for the development of the mortgage market in Armenia,
- increase the attractiveness of secured mortgage bonds issued in Armenia to foreign investors.

# SECURITIES MARKET REGULATION

The Bank continued its cooperation with international organizations for the securities market regulation and improvement of oversight. A multilateral memorandum of understanding, cooperation and exchange of information was signed with the International Organization of Securities Commission (IOSCO) in January of 2018. This will help sustain effective cooperation with foreign competent authorities to prevent and detect violations of the securities market legislation by creating additional safeguards for the protection of investor interests. In June 2018, the Bank joined as a member the International Association of Capital Markets (ICMA), which provides wide opportunities for introducing best standards to the capital market and sharing international experience in the field of security market regulation.

Considering that risks related to forex transactions and other leveraged transactions are diverse in nature and may often bring about negative effects (including broker abuse, unrealized loss of resources of a large number of domestic households), the Central Bank proposed in 2018 to regulate the brokerage firms which provide relevant services for such transactions. To this end, providers of investment services connected with leveraged transactions in a forex market will follow the same licensing and regulatory requirements established for investment service providers. Moreover, such services are only permitted to offer to professional clients, ie customers who have adequate experience and knowledge to understand the risks arising from those transactions and make their own investment decisions. The approach to regulatory arrangement will create effective mechanisms for protecting interests of investors in forex transactions and other leveraged transactions.

# PAYMENT AND SETTLEMENT SYSTEM REGULATION

In 2018 the Bank's activities included further development and reliability of payment and settlement systems, expanding the volume of non-cash payments and improving the payment and settlement systems regulatory framework.

## Electronic payment system

In 2018, as part of implementation of a new "Operational Day" system, message formats used in the electronic payment system of the Central Bank were improved and the electronic payment system participants benefited streamlined payment processes. Improvement is expected to continue in 2019.

In the reporting period, the value of money transfers via the electronic payment system has increased by 0.15% as compared to the previous year, amounting to AMD 15354 billion and the number has increased by 9.2% to 3510450 transfers.

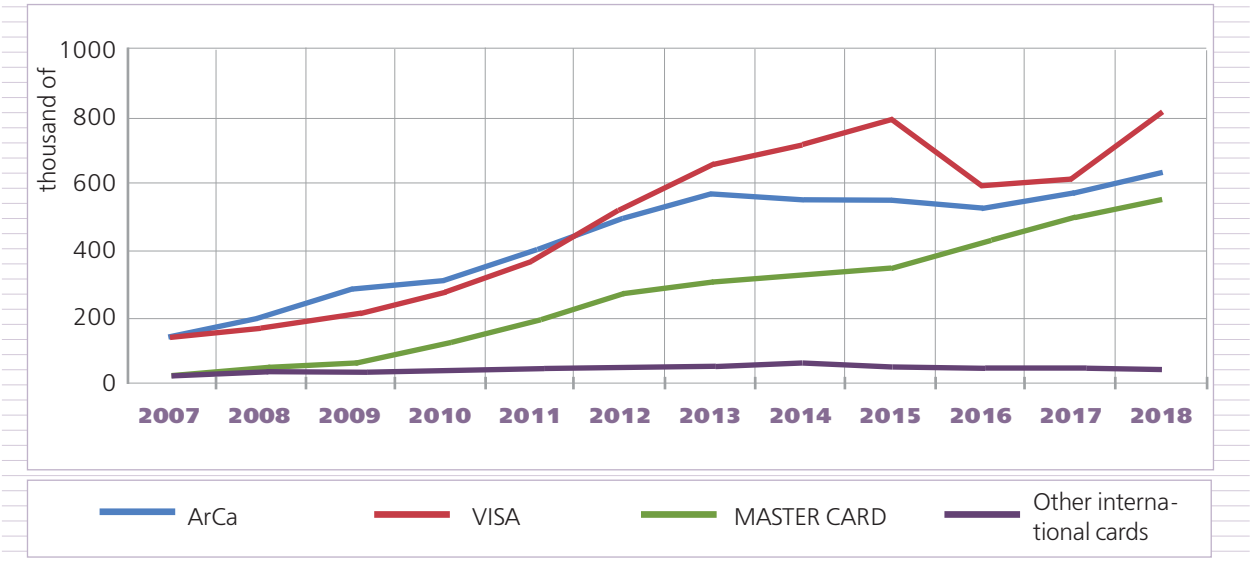
## Payment instruments and payment and settlement organizations

Further work was done to improve the regulatory framework for payment and settlement organizations in 2018, and possible risks associated with peculiarities in providing payment and settlement services have reduced as a result, making the resources of users of these services safer through a special bank account offered to them.

In 2018 the Central Bank has issued activity license to 3 payment and settlement organizations

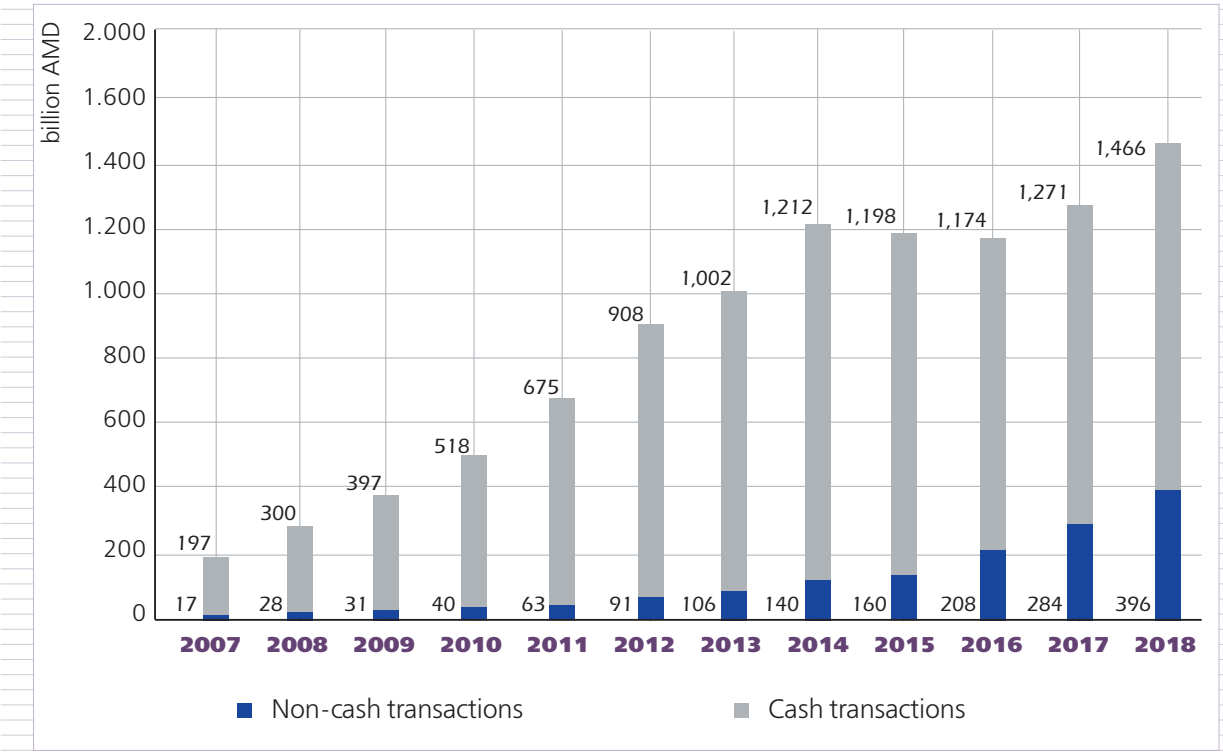
As of the end of 2018, 16 commercial banks operating in Armenia have issued payment cards to and provided card servicing of their customers. The number of cards in circulation has increased by 18% and totaled 2.0 million (see Figure 8).

**Figure 8: The number of payment cards in circulation, 2007–2018**




Developing non-cash payment instruments and a respective infrastructure is aimed at encouraging cashless payments. In 2018 the value of card operations in Armenia amounted to AMD 1 trillion 861.7 billion. The value of non-cash payments by cards has increased by 39.2% to AMD 396.0 billion. In total non-cash operations, the value of transactions in the internet reached AMD 246.0 billion (including e-commerce: AMD 101.2 billion, card-to-card transfers: AMD 48.9 billion). As a result, relative to 2017, the share of non-cash payments in card transactions has grown by 3.0 pp to 21.3% in 2018 (see Figure 9).

**Figure 9:** Operations by payment card in Armenia




## International cooperation and standards

In 2018 the Bank continued its cooperation with central banks of the Eurasian Economic Union member states in the field of payments and settlements. The National Payment Systems Development Working Group supported activities in implementing the national payment card systems and the ISO 20022 Standard, transmitting financial messages, making settlements and fast payments, and developing financial technologies and cybersecurity. In 2018 the central banks of Armenia and Russia signed an agreement on cooperation for counteracting computer attacks; it enables access to information on computer attacks detected in the financial sector of Russia and how to prevent them and provides for support of the Central Bank of Russia in investigating the attacks in the financial system of Armenia. Sharing of information in an efficient manner has made preventing and combatting computer attacks more effective.

In view of further compliance with international standards, the concept paper on the Central Bank's oversight of payment and settlement and securities settlement systems was approved in a new edition in 2018, which was updated and aligned to the new principles of the financial market infrastructure approved by the Bank for International Settlements. The concept paper defines the principles, competence, purpose, scope (objects) of the Central Bank oversight as well as outlines the requirements to the systems involved in oversight.

In 2018, as part of the Financial Sector Assessment Program, **the IMF** and **the World Bank** examined Armenia's payment and settlement system and reached a conclusion that credit, liquidity and operational risk management is satisfactory.

# DEVELOPING TRAINING AND RESEARCH CAPACITIES

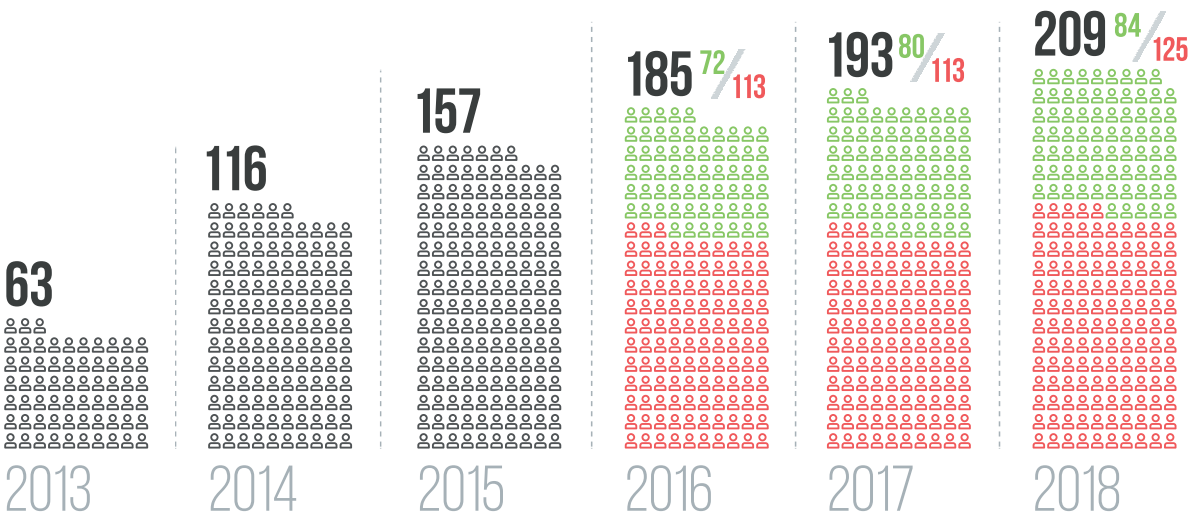
In 2018 the Dilijan Training and Research Center continued its activity in three main areas: research, international cooperation and corporate social responsibility. Seminars organized for international audience and research papers published during the year have enhanced the international profile of the Center. The Dilijan TRC continued hiring more specialists during 2018, making the number of employees to 209.

**DILIJAN TRAINING AND RESEARCH CENTER**

STAFF

Residents of Dilijan and of neighborhood districts

Residents of Yerevan



In 2018 research papers on the Armenian and global economy were published and grounds for further work laid. In An analysis carried out in collaboration with Stanford University postgraduates on how exchange rate shocks are linked to financial dollarization will soon be published. In the framework of joint programs with the IMF, an analysis on the potential US GDP assessment was published as an IMF work paper. As part of the cooperation with the Asian Development Bank Institute, a study paper on financial inclusion and financial literacy was published as a work paper of the ADB Institute. Domestic economic growth remained a topic for more research work which was presented to the Government representatives. A delegation from the Central Bank of Russia visited the Dilijan TRC to study the Center's research and training programs. During the visit they also discussed opportunities for joint projects.

Two research projects on international trade and short-term forecasts were carried out together with Professor Eugene Kochenda of Charles University. One of the works appeared in Emerging Markets Finance and Trade and the other was published at Kyoto University, as a work paper. A research on the financial market of Armenia was conducted together with Master Abel Poghosyan of Bocconi University of Milan, which will be published in Armenian Journal of Economics.

The cooperation with the World Bank continued in 2018 as part the program of financial literacy development. The survey carried out jointly by the World Bank and Central Bank employees came up with behavioral hypotheses which is expected to underlie the development of a more efficient financial literacy policy.

In the framework of the Memorandum of Understanding between the Central Bank and the Harvard University's Davis Center for Russian and Eurasian Studies, the Bank organizes a series of Harvard University student internships at Dilijan TRC every year; similarly, employees of the Bank conduct research at Harvard University. The work is aimed at studying how current developments affect the activities of the Central Bank. As of the end of 2018, two employees of the Central Bank had conducted research.

Professors of economics, lecturers and others from Vanderbilt University, University of Illinois Urbana-Champaign, University of Zurich, University of Barcelona, Northwestern University visited the Dilijan TRC in 2018 for delivering consultancy, lectures and conducting collaborative research with the employees of the Center.

# International

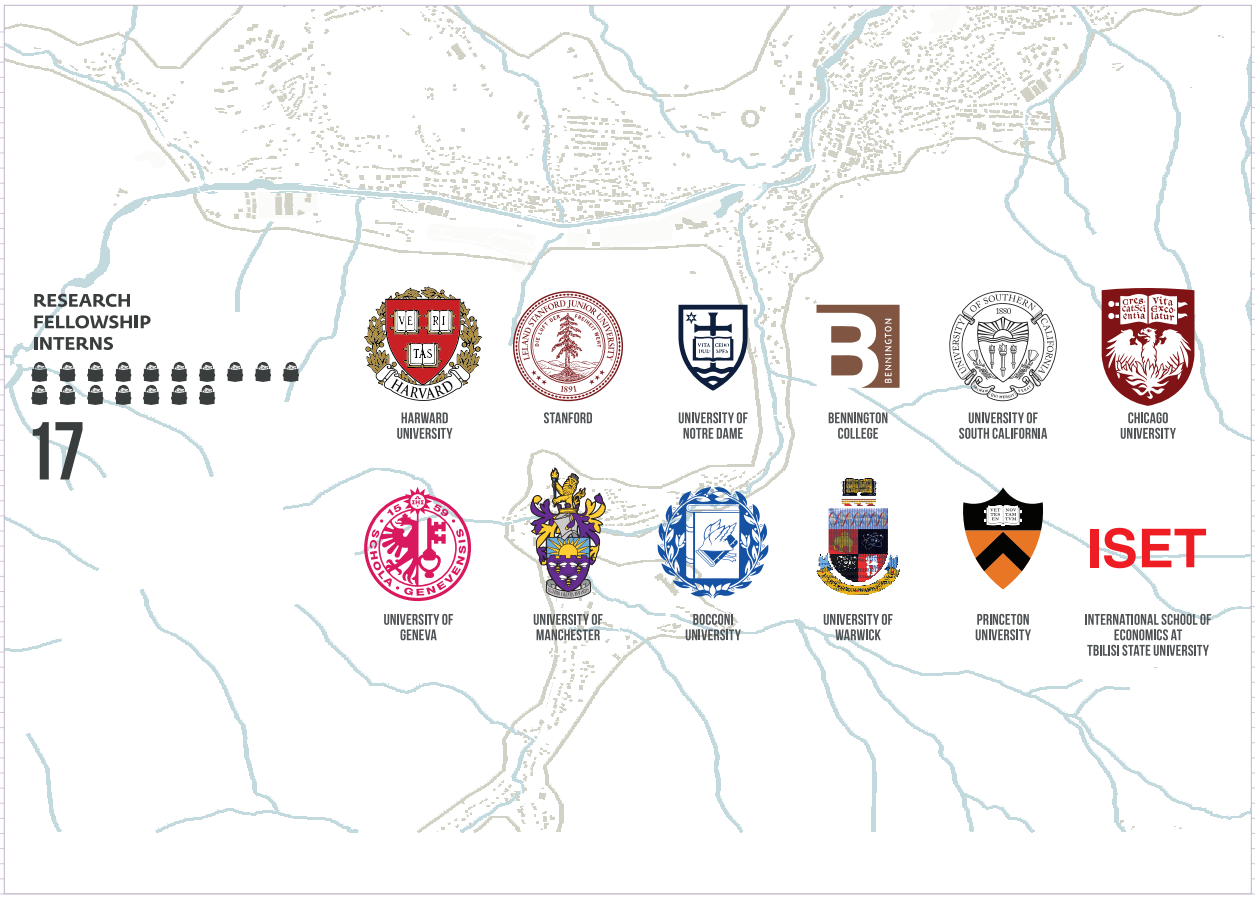
In 2018 a number of regional and international conferences, workshops, trainings, forums, etc. were organized in the Dilijan TRC. Specifically:

- A two-week program of training of leading commercial banks was held. Participants have examined monetary policy and financial stability issues, as well as the basic principles of inflation targeting. The Bank's forecast and policy analysis system has also been presented.
- The second round of the "Central Bank and Commercial Bank Employee Certification" program took place at the International Financial Cooperation Center of the Bank in Vienna, Austria. The program is organized by the joint efforts and funding of the Dilijan TRC, the Netherlands Development Financial Organization, FMO, and the Finance in Motion. In December, the Dilijan TRC hosted the next round of the said program. The participants benefited lectures delivered by tutors of Skema Business School and National Bureau of Economic Research, Tilburg University, New York University and Rotterdam University management schools. The Certification Program was attended by employees of central banks and commercial banks of Armenia, Georgia, Moldova, the Netherlands, and other countries.
- A blockchain training course, conducted by HEX Division founder Hovhannes Kuloghlyan, was organized.

Deputy Chairman of the Central Bank of Russia Vladimir Chistyukhin, a delegation headed by the Bank of Russia University Director Mikhail Volkov, General Director of "Ingostrakh" and Deputy Director General Ilya Solomatin paid a familiarization visit to the Dilijan TRC. As part of sharing of knowledge, the Center presented its best experiences.

The Dilijan TRC continued to host and deliver lectures for students from different universities in Armenia and Artsakh. During the year students of the Artsakh State University, Armenian National Agrarian University visited the Dilijan TRC to attend a lecture organized by the Center and then made a tour in the Dram Museum, listening to the history of money. Regular visits of students from the Armenian State University of Economics, Yerevan State University, as well as Ijevan Branch of YSU are aimed at presenting the Central Bank's activities to students, transferring knowledge to a new generation.

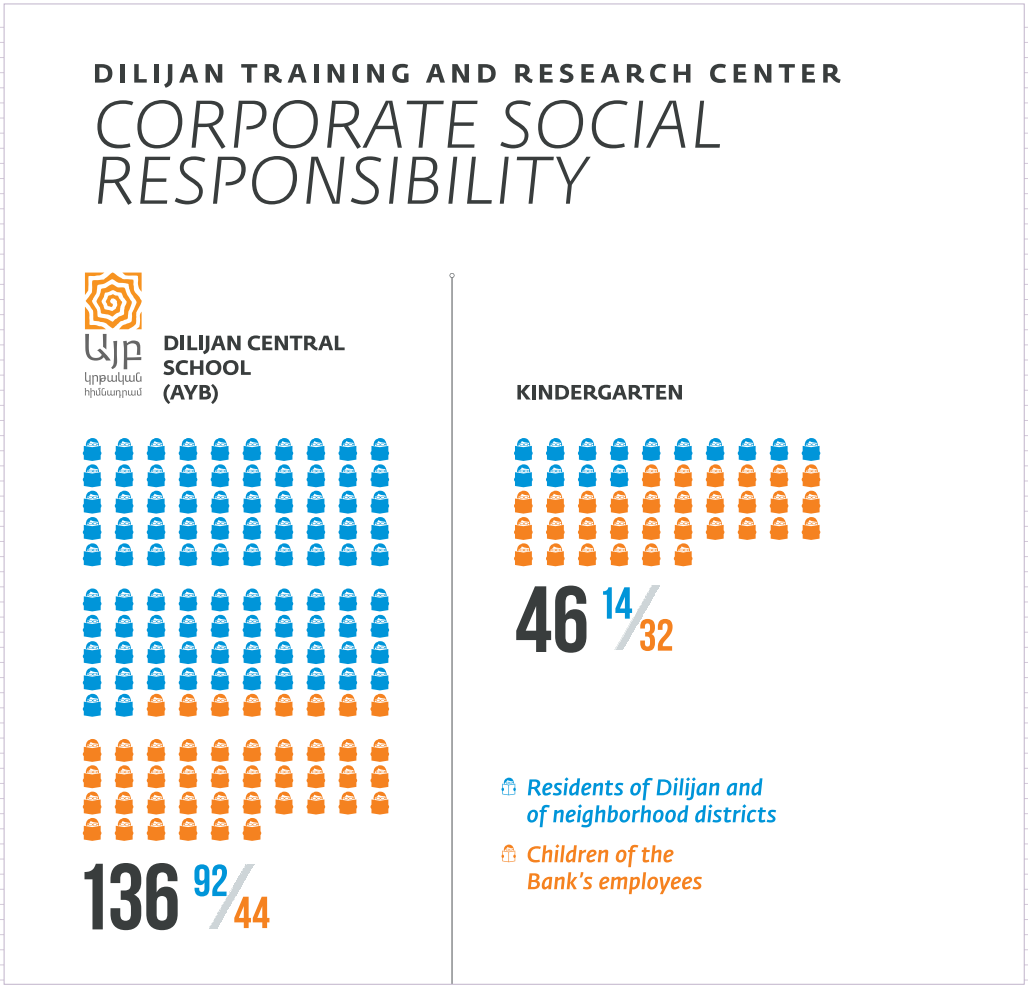
In 2018 the Dilijan TRC hosted research fellowships from various colleges and universities (Harvard, Notre Dame, Bennington, South California, Chicago, Geneva, Manchester, Stanford, Bocconi, Warwick, Princeton, the International School of Economics of Tbilisi State University).



Cooperation with the American University of Armenia continued in 2018 in the framework of the Master of Economics. Since 2014, about 100 students have taken part in the program.

## Corporate social responsibility

The Dilijan TRC continued its mission of developing the town of Dilijan, which is considered as a key component of corporate social responsibilityof the Bank.




The Dilijan Central School, the FabLab, the Tumo Center for Creative Technologies, the Knowledge for Development, ie the library, the Dram Museum and other important infrastructures continued their activities as part of the Central Bank's corporate social responsibility. A variety of educational programs carried out by the Center are aimed to facilitate comprehensive development of children.

The "Knowledge for Development" Center encourages children from Dilijan and rural communities in the vicinity to use the library's rich literature, visit the Dram Museum, learn the history of money, share a common platform for interaction and debate, take part in open classes and go to events organized by the Center. In 2018 the "Knowledge for Development" Center served more readers, totaling 1901. The Center was proactive in organizing a great variety of events (as much as 168, with involvement of more than 3600 participants) to let them develop creativity in themselves. During the year, the Dram Museum of the "Knowledge for Development" Center received 1,830 visitors, organized more than 130 excursions and trainings.

**DILIJAN TRAINING AND RESEARCH CENTER**

## *CORPORATE SOCIAL RESPONSIBILITY*

**KNOWLEDGE FOR DEVELOPMENT CENTER**

**LIBRARY**

**168+**
**EVENTS**

**1901**
**SUBSCRIBER**

**3 600+**
**PARTICIPANTS**

**10 000+**
**BOOKS**

**MUSEUM**

**130+**
**EXCURSIONS**

**1830**
**VISITORS**

The Center carried on with the "Citizen On-the-Go" initiative a platform where people, successful in any particular field, will share their experience and knowledge with children, revealing the pros and cons of that field, which will help children with professional orientation. In 2018 the head of the Tavush diocese, the head of the Puppet Theater, members of the Board of the Bank, actors and more than 700 children were hosted at the Center.

| KfDC | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| 1. Library books purchased/ discharged, pcs | 1474 | 2177 | 4633 | 2008 | -598[3] | 134 |
| 2. Number of subscribers | 615 | 865 | 1128 | 1426 | 1642 | 1901 |
| 3. Number of events | 42 | 105 | 116 | 115 | 113 | 168 |
| 4. Number of event attenders | - | 1612 | 1801 | 1933 | 2358 | 3677 |
| 5. Number of museum visitors | - | 1053 | 1243 | 1574 | 2005 | 1830 |

- In 2018 the FabLab launched trainings for AutoCad program, 3D modeling, aeromodeling and photography, and a training course "CoderDojo" in collaboration with the "Girls in Tech". About 125 children from different age groups attended these trainings. Cooperation with ANEL, a laboratory of robotics, has started in order to build a robot skeleton.
- The Dilijan Central School, which is managed by AYB educational foundation, currently has 136 schoolchildren nearly 80% of who are Dilijan residents, while part of the teaching staff having passed training by the AYB educational foundation curriculum, live in the neighborhoods.
- The number of young people having attended TUMO, a center for creative technologies, reached 381 in 2018. Since the opening of TUMO in Dilijan, 1160 participants have passed their courses. This project proved increasingly attractive to teenagers aged 12-18. The spectrum of projects offered by TUMO has expanded to include 54 general courses and 4 specific courses.

As part of corporate social responsibility, employees of the Bank have also organized numerous charitable events throughout the year in border-line villages of Syuniq, Vayots Dzor and Tavush regions and in some orphanages.

3 The books discharged were donated to Tavush region schools in border-line villages.

# CONSUMER PROTECTION AND FINANCIAL EDUCATION

The Bank spent further efforts to protect consumers in the financial system by making sure that financial service providers' business conduct is fair and that appropriate institutional environment and financial education framework are in place.

## Regulatory framework development

To achieve increased transparency in financial institutions and the services they offer, the requirements to disclosure and provision of information have improved.

Requirements to providing additional information on essential terms of services offered by online service providers, exchange offices and brokers/dealers were developed. In order for consumers to be more watchful and able to make informed decisions, the Bank developed requirements stipulating that specific information with precaution be included in the information for promotional materials and web sites.

In view of legislative amendment, requirements to providing information to consumers on mortgage and agricultural loans and to the disclosure of such information were established, and clear, complete and affordable extracts and essential terms of service were developed.

Based on the feedback and findings of analyses, new requirements were set to provide consumers with information which they will need in making early repayment of consumer and mortgage loans.

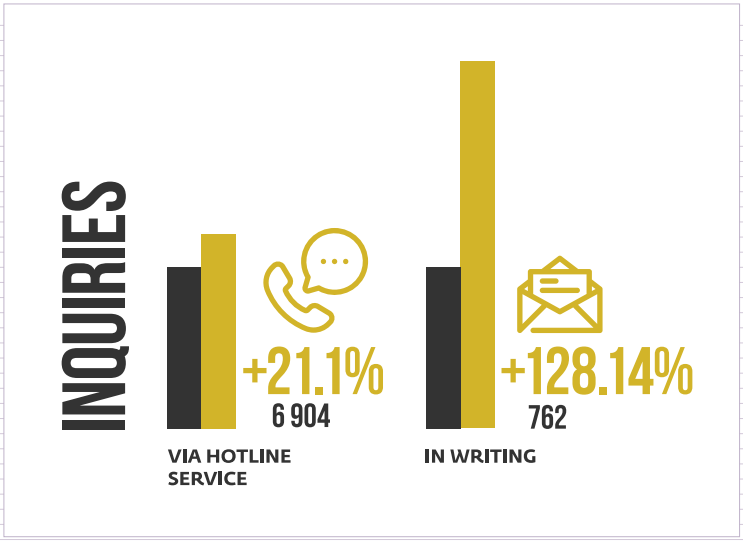
To have complete and methodical information on consumer issues, requirements to having an internal database of complaints in financial institutions were established and now are applied. It will also provide an opportunity to identify issues in the field of consumer protection and to develop a targeted policy.

# Oversight of business conduct

In 2018 the Consumer Protection and Financial Education Center (CPFEC) continued on-site and off-site surveillance of financial organizations.

The on-site surveillance of many financial organizations has provided for studies which measured the adequacy of delivery of services, complaint and dispute resolutions, information disclosure policies and how they were applied, consumer exposures to risk and legal compliance.

As part of off-site examinations, the CPFEC monitored, on a monthly basis, radio advertising by financial organizations in addition to their TV commercials.




In 2018 the CPFEC continued responding to consumer complaints received in writing and via a hotline service.

During the year a total of 6904 calls were received via a hotline service, which means more than 1200 calls or a 21.1% increase of calls compared to the previous year. In 2018 the CPFEC received 762 complaints, which represents as much as 128.14% increase (428 more complaints) relative to the previous year, which is unprecedented compared to the previous three years.

# Increasing the level of financial literacy of consumers in Armenia

In 2018 a pilot program "Financial Education at the School" continued in 14 schools. In June, the feedback from teachers and the results of the focus groups of schoolchildren were rounded up. A total of 46 teachers and about 1700 schoolchildren took part in the program.

The piloting made it possible to be more specific about financial education standards and programs on such subjects as "Me and the Surrounding World", "Mathematics", "Algebra", and "Social Science" and about methodic teacher guides. The documents were approved by the RA Minister of Education and Science.

Starting September 2018, a total of 2532 teachers from 346 schools in Yerevan and the regions passed a respective training in the framework of that program. The training will carry on until 2021, with the program to be introduced to all schools in Armenia.

The implementation of the "Financial Education in Rural Communities" program continued during the year. Regional trainers who were prepared by the CPFEC of the Central Bank conducted trainings on effective management of personal finances at Gyumri, Vanadzor, Yeghegnadzor, Dilijan, Ijevan and Stepanakert offices of the American University of Armenia.

The "My finance month-2018" program was carried out this year too. The program is aimed at helping the public get a clear understanding of finance and, particularly, the financial services.

The websites for **financial education** (www.abcfinance.am) and **financial information** (www.fininfo.am) now come with a completely new design, with the latter to be equipped with new functional features and a more user-friendly application starting 2019.

The CPFEC has prepared and published in many weeklies more than 20 print and over 70 electronic articles about financial education in the field of budget management, payment and settlement systems, loans, deposits, insurance, securities and so on. Table games "Budgetling" and "Finances otherwise" were developed. Funded pension schemes were broadly featured. The implementation of educational projects such as "Workshops for the Military", "Citizenship" and "Mediator's Camp" continued. To highlight the importance of the financial education and increase the interest in it, social websites helped much to carry out various online financial awareness campaigns, using, in particular, social platforms (Facebook, Youtube, Twitter pages) of the website abcfinance.am.

**The CPFEC enhanced its cooperation with international institutions supporting consumer protection and financial education, such as the Organization for Economic Cooperation and Development (OECD), the International Financial Education Network (INFE), the Alliance for Financial Inclusion (AFI), the Eurasian Economic Partnership, and the Child & Youth Finance International. The Central Bank has received a Special Recognition Award for hosting the AFI events, the 2018 Alliance for Financial Inclusion Awards.**

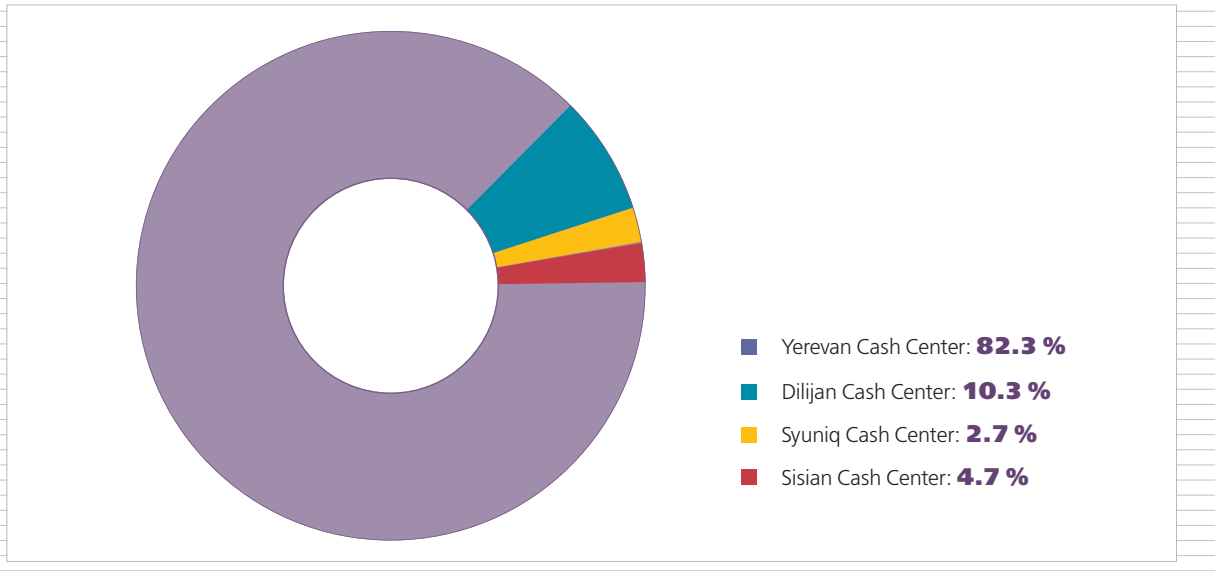
# CURRENCY ISSUANCE AND ORGANIZING MONEY CIRCULATION

The activity of the Central Bank in regulating the circulation of the national currency was aimed at satisfying the demand by volume, structure, quality and timing for cash in the economy. The Bank has organized and regulated the currency circulation while adhering to the principles of reliability, convenience, efficiency and continuity.

The Central Bank delivered cash services to its customers in regions of Armenia and the Republic of Artsakh through Yerevan-based general cash center and regional cash centers (RCC) of Dilijan, Sisian and Syuniq.

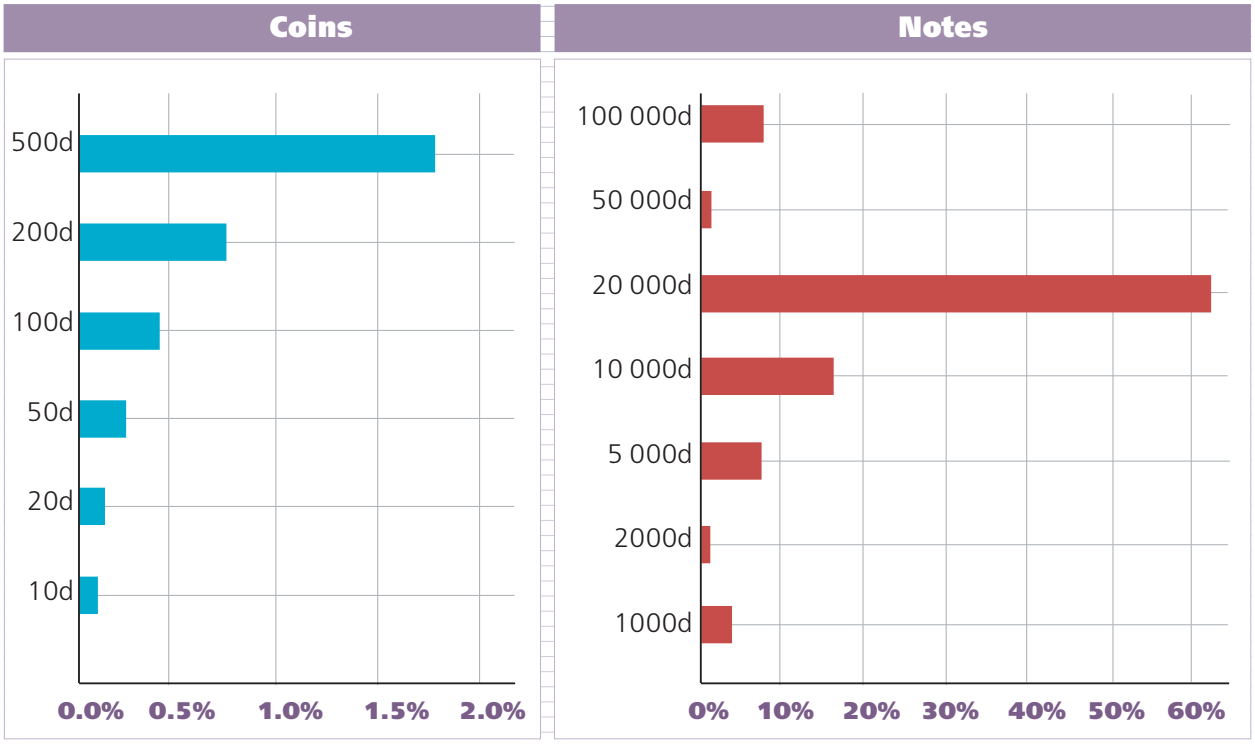
In 2018 regional cash centers provided 17.7% of total cash circulation of the Bank. Like in previous years, most RCC transactions were for cash withdrawal, constituting 82.1% of their total turnover.

**Figure 10: Cash circulation of the Bank in 2018**



In the reporting year the amount of cash outside the Central Bank has increased by 9.8%, whereas no significant shift has been observable in its type structure. The demand for the nominal value of 20 000 drams was particularly high, with its volume in circulation having increased by 13.0% in comparison with the beginning of the year.

**Figure 11: Type structure of currency outside the Central Bank as of 31.12.2018**




Year 2018 marked the 25th anniversary of the Armenian dram, and in this connection the Central Bank issued the third series of banknotes, using printing technology innovations and, hence, tackling some most important aspects in security features of the Dram. The banknote structure by type has improved as the Bank introduced a new nominal value, 2 000, to the banknotes. The third series of banknotes are represented by nominal value 1 000, 2 000, 5 000, 10 000, 20 000 and 50 000 drams. Furnished with a new design, the banknotes carry on representing renowned Armenians and, at the same time, stand out with thematic and geographic diversity. The new banknotes have been printed on composite materials which provide greater durability and longer service life in circulation. The use of state-of-the-art security features that are vivid and well-visible makes it easier to recognize and authenticate the banknotes.

At a printing phase of the new banknotes and once they have been received, quality, technical specification and security feature checks followed by way of doing a sampling from a batch.

# DRAM 1993/2019

## 1993




## 1998-2015




## 2018



As part of the framework to combat money laundering, efforts were spent to detect and take the expertise of counterfeit money and relevant information on fraudulent methods, how these are executed was communicated to law enforcement authorities.

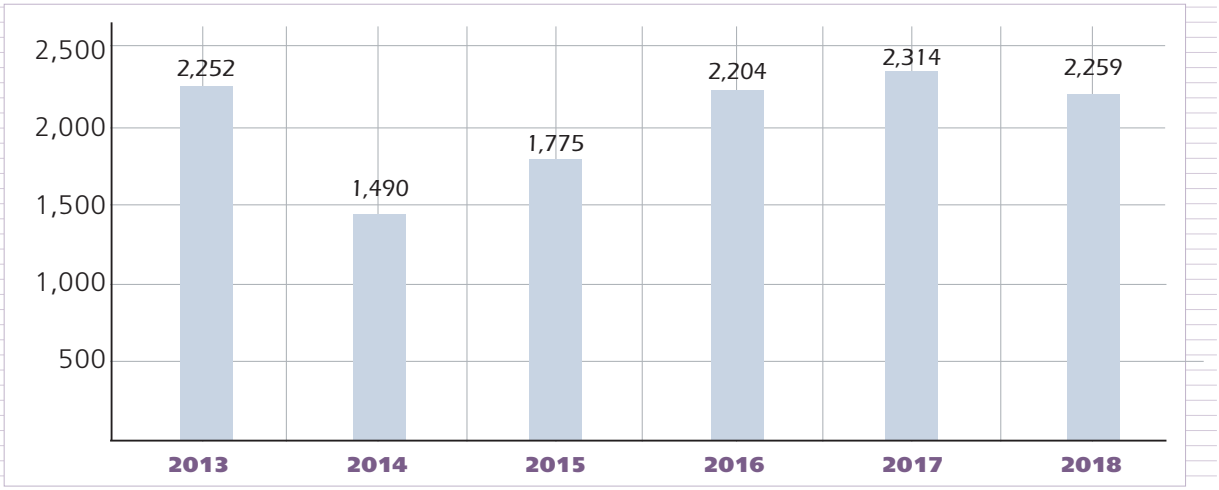
Year 2018 was rich for landmark events: 100th anniversary of Sardarapat heroic battle, 100th anniversary of the First Republic of Armenia, 2800th anniversary of Yerevan's foundation, 25th anniversary of introducing the national currency, etc. In connection with all these events, the Central Bank has issued respective commemorative coins made of precious metals, as well as two coin series titled "Armenian Rugs" and "Ceramics of the World", which stirred great interest not only among Armenian collectors and numismatists, but also guests and tourists who visited Armenia.

The series of precious metals commemorative coins celebrating renowned Armenian artists had a new coin dedicated to Hovhannes Zardaryan's 100th birthday anniversary, and the coin World Cup Football-2018 was issued in the framework of the International Numismatics Program.

# INTERNATIONAL RESERVES MANAGEMENT

In the reporting year, gross international reserves of the Republic of Armenia have decreased by around USD 54.7 million to nearly USD 2,259 million at the end of 2018 (see Figure 12).

**Figure 12: International reserves of Armenia (million US dollar)**




The decline in reserves owed primarily to the sum equivalent to nearly USD 368 million repaid as principals and interests on the external debt. At the same time, around USD 107 million worth of loans and grants were received during the year. About USD 44 million worth of foreign currency was purchased in the domestic market, and commercial banks' correspondent accounts with the Central Bank have grown by about USD 140 million.

Armenia's international reserves continued to be compliant with main requirements to foreign currency reserves, particularly, in terms of its economy's ability to absorb possible external shocks. In 2018 international reserves of Armenia provided about four months of import coverage and nearly six years of servicing of current liabilities.

Amid general trends and expected developments in the world financial markets, the Central Bank continued its strategy of managing international reserves of Armenia by taking a least-risk-involvement approach, which is aimed at increasing the safety, liquidity and effectiveness of management of the reserves.

# ORGANIZING AND REGULATING THE FRAMEWORK TO COMBAT MONEY LAUNDERING AND TERRORISM FINANCING

The 2018 activities for combatting money laundering and terrorism financing included conducting strategic and operational analyses, taking preventive measures to deal with potential suspicious transaction indicators, implementing a regulatory framework and strengthening national and international cooperation in compliance with best international practice and in accordance with national risks.

## Strategic and operational analyses

**The purpose of conducting strategic analyses by the Financial Monitoring Center (FMC) is to identify ML/TF risks and take action to respond to the risks identified.**

The national ML/TF risks assessment, which began in 2017, was completed in 2018. Particularly, a variety of qualitative and quantitative indicators were used to identify and evaluate money laundering and terrorism financing risks, and analyses were carried out in the following areas:

- crimes preceded ML, by analyzing criminal cases and convictions with predicate offences,
- latent criminality and corruption, by comparing and studying the assessment on Armenia by international institutions and expertise, with a use of existing statistics,
- the risk of ML abuse by legal entities , by examining such organizations registered in the Republic of Armenia, their legal characteristic and the identified cases of misuse

- the risk of TF abuse by non-commercial organizations, by examining such organizations registered in the Republic of Armenia, their legal characteristics, and examining other essential data in the context of TF,
- the ML/TF risk associated with new technologies and etc [4].

Based on the findings of national ML/TF risk assessment, the 2019-2021 National Strategy for Combating Money Laundering and Terrorist Financing, as well as the Financing of Proliferation of Weapons of Mass Destruction, together with its Action Plan and the Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing in the Republic of Armenia (hereinafter referred to as the Interagency Commission) has approved it [5].

**Operational analysis carried out by the FMC is aimed at detecting potential ML/TF cases and, as appropriate, taking preventive measures and making referrals to enforcement authorities about grounded suspicion of ML/TF cases.**

A total of 294 suspicious transaction reports were provided by reporting entities and analyzed by the FMC during the year. These STR referred to money laundering and suspicion of predicate offences. Some of the most common fraud schemes indicated in the analyses were:

- attempts to legalize proceeds of crimes committed through the use of various mass marketing schemes,
- transit flow of funds through the Armenian banking system, where the funds originate outside of Armenia, in other countries with unknown (potentially criminal) sources,
- financial transactions potentially aimed at tax evasion, illegal entrepreneurship and unreported economic activity,
- attempts to legalize funds created by the abuse of power exercised by the employees of commercial or other organizations,
- other cases with similarities to the schemes described in the typologies published by the Bank.

4 See details at: https://www.cba.am/Storage/EN/FDK/Guidelines/NRA_Update_Executive_Summary(Public)_arm.pdf

5 See details at: https://www.cba.am/Storage/AM/downloads/FDK/Strategy/AMLCFT_Strategy_(2019-2021)_Arm.pdf

## Preventive measures

**Preventive measures involve providing instructions (notifications) to the reporting entities for suppressing the ML/TF risks identified as a result of strategic and operational analyses, placing on the FMC website public notices of change in international listings for immediate use of targeted financial sanctions, training for reporting entities and so on.**

In 2018 nearly 40 instructions (notifications) were cascaded to reporting entities. These instructions/notifications covered measures toward raising awareness on ML/TF risks and taking preventive action related to the following cases:

- Cases with elements of fraud schemes,
- Inflows and outflows from geographies associated with high risk,
- Significant ML risks associated with providing virtual terminals to websites established by non-resident companies through mediation of legal entities.

In addition to the above, the reporting entities were provided with feedback with the aim to inform them on the progress and results of the analyses.

It is worth mentioning that carrying out various risk-involving transactions by participants of the banking system, which occupy a dominant position in the financial market, has been rejected or their business relationships with the customer terminated in almost 90 cases; furthermore, in two dozen cases the rejection/termination have been pursuant to the FMC's instruction and, in the remaining cases, as a result of analyses which the banks did on their own.

In order to prevent or mitigate TF risks arising from an increasing international threat of terrorism, appropriate and dynamic measures were taken to identify potential sources of terrorism funding, destinations, schemes, persons involved in TF in the context of international cooperation. In particular, continued efforts were invested into collection and analysis of information from reporting entities on financial transactions to and from geographies associated with high TF risk and the results were reported to domestic and foreign partners.

In order to effectively mitigate TF risks, continuous efforts were invested in the reporting period to implement the restrictive measures imposed by international organizations. In particular, the following

information was published on the FMC website and notified to reporting entities:

- Updates in the lists published by or in accordance with the UN Security Council resolutions that stipulate for the freezing of assets of persons under, inter alia, UNSCR 1267/1989/2253 designations on ISIL (DA'ESH) and Al-Qaeda, UNSCR 1988 designations on the Taliban, and UNSCR 1718 designations on North Korea;
- The FATF statements on countries with strategic deficiencies in their AML/CFT systems, as well as on countries with such strategic deficiencies monitored by the FATF under its on-going global AML/CFT compliance process.

It is worth mentioning that the Republic of Armenia continues to have a very low level of TF risk.

As regards training organized for reporting entities, workshops/discussions on the developments in the fight against ML/TF were held for all groups of reporting entities; about 300 employees attended these workshops.

## Legislative arrangements

**One of the key elements of an effective AML/CFT framework is the legislation that best reflects international standards and restricts the AML/CFT risks.**

For continued improvement in the current legislative framework on the fight against ML/TF, the RA National Assembly passed, on March 1, 2018, a package of draft law and related laws on amendment and addenda to the RA Law on Combating Money Laundering and Terrorism Financing. The changes introduced to the AML/CFT framework came to suppress ML/TF risks arising from the use of large amounts of cash in the real estate market and to improve the implementation of the FATF Recommendations. The passing of the legislative package brought about changes and additions to sub-legislative acts in the field of fight against ML/TF in the reporting period.

To improve the implementation of international commitments by Armenia under the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (the Warsaw Convention) and of the FATF Recommendations and of the confiscation of criminally obtained property

in the Republic of Armenia, international experience on having the offender to provide evidence on the legitimate origin of the property (where that property is to be confiscated without conviction or in the event of grave crime) was broadly studied in the reporting period. Based on the results of the study, concepts were developed and approved by the Interagency Commission. The concepts were submitted to the staff of Prime Minister in order to set up a working group and start drafting legal acts.

## Collaboration with law enforcement authorities

**In view of detecting, preventing and thwarting ML/TF incident, exchange of information and arranging meet ups between the FMC and law enforcement authorities as well as trainings is important.**

Based on the results of analyses, disseminations with ML hypothesis were made to law enforcement authorities and foreign financial intelligence units. The table below presents statistical data for 2017-2018 on disseminations made to law enforcement authorities resulting from analyses with ML hypotheses, as well as on requests made by the FMC to law enforcement authorities and vice-versa, instigated criminal cases and conviction.

| | 2017 | 2018 |
|---|---|---|
| FMC referrals to law enforcement authorities | 37 | 44 |
| Information law enforcement authorities requested from FMC | 58 | 84 |
| Criminal cases instigated | 2 | 8 |

The increased number of inquiries by law enforcement in 2017-2018 has been largely due to more disclosures of legalization of proceeds from corruption-related crimes.

Remarkably, 4 criminal cases out of 8 were instigated in 2018 using the FMC referrals to the law enforcement authorities.

# 4 INSTITUTIONAL DEVELOPMENT

**Security and business continuity**

**Knowledge and human resources**

**Communication and accountability**

# SECURITY AND BUSINESS CONTINUITY

## Security in the Bank

Based on international best practices and drawing on the results of assessment of security risks, the Central Bank made a progress in the physical and logical security of its critical infrastructure in 2018. Specifically:

- new cybersecurity facilities were introduced,
- the level of protecting important information assets from the Zero-Day Attacks was enhanced,
- a new control system for privileged user activities and remote connections was introduced,
- events to increase staff awareness in the field of security were held on a regular basis.

In the reporting period the Bank has developed a concept paper on Cyber Security Incident Response Center, and a handful of organizational and technical measures were carried out in the framework of the concept. The center aims to raise the overall level of cybersecurity in Armenia's financial system, reduce the number of unwanted incidents and cut the time to respond to them.

## Continuity of business processes in the Bank

In view of global developments in the field of information security, the Central Bank has emphasized the importance of having the highest level of reliability of cybersecurity in the domestic financial and banking sectors and making sure it functions normally in emergency situations. To this end, the Bank continued developing, together with commercial banks, business continuity plans, and conducted checkups on disaster recovery plans.

# KNOWLEDGE AND HUMAN RESOURCES

As of end December 2018, the Bank had 734 employees, working on open-ended and fixed-term contracts, of which 425 were women and 309 men. The average age of employees is 40. The number of employees who left the Bank in 2018 was 51 (89 in the year before).

In 2018 as much as 21 vacancies in the Bank were filled based on the winning results of a total of 20 competitions. During the year, 36 employees earned promotion (two of who for a managerial position) for taking up a function of increased complexity.

The Bank keeps encouraging the recruitment of young specialists (with no professional experience) while providing them with an opportunity to grow professionally and fill up vacancies in the future. To this end, 11 young specialists signed fixed-term employment contracts with the Bank after having completed a regular two-month program "The Central Bank: an introductory course" in 2018.

During the year, 25 applicants participated in the Isahak Isahakyan Stipend Eligibility Contest announced by the Bank. The best of them one from Armenian State University of Economics, one from Armenian State University of Economics (Gyumri branch), two from Yerevan State University, and three from Artsakh State University were awarded the Isahak Isahakyan Stipend.

In 2018, a total of 133 students from colleges and universities in Armenia took their research internship at the Bank.

During the year, 37 employees of the Bank lectured at a number of universities and other educational establishments, sharing their experience and knowledge with them.

# Staff training and professional qualification

Emphasizing the importance of continued professional growth of its employees, the Central Bank carried out activities aimed at enhancing professional **qualification** of the staff in 2018 too.

In 2018, to obtain up-to-date knowledge and experience and to develop new skills, the employees of the Bank passed training at banks, other financial institutions and training centers abroad and educational centers, including Dilijan Training and Research Center, in Armenia, and benefited from attending courses led by lecturers of well-known international universities.

In pursuit of sharing knowledge and expertise accumulated over the years and further commitment to a teamwork, the Bank has organized, by drawing on internal resources, 12 seminars for as much as 247 employees to communicate its current issues and functions and to help them develop important skills for professional activities.

In the reporting period, 15 employees took online training courses on financial supervision offered by the Financial Stability Institute.

Job rotation, another tool for professional development, was offered to 10 employees of the Bank in 2018 to make sure a reserve of managerial staff is in place and both experienced professionals and young specialists are given a chance to broaden their knowledge.

During the year, employees of the Bank passed international certification and qualification exams in the field of finance, accounting, audit, insurance, information technologies. As of 2018, 63 employees had international certificates of qualification and 25 were taking exams. Five employees of the Bank are full members of CFA and ten are full members of ACCA.

# COMMUNICATION AND ACCOUNTABILITY

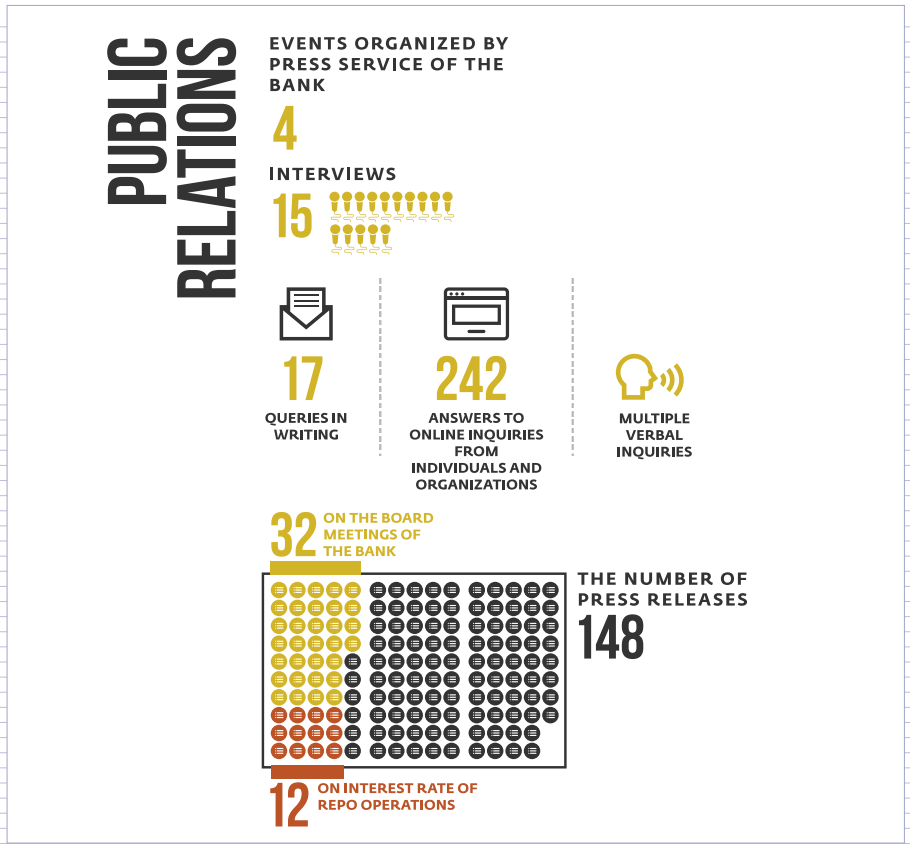
## Public relations

In 2018 further work was done by the Bank to communicate the events in the financial market, the activities of financial companies and its activities to the general public. Large-scale events organized on the occasion of the 25th anniversary of the Armenian dram involved presenting the history of the national currency and the financial system to the public.

The Bank regularly announced its actions, projects, undertakings about monetary policy, financial supervision and financial stability to financial market participants and general public, and arranged meetings to discuss matters of interest. Particular attention was paid to featuring the third series of Armenian banknotes.

The Bank provides for public disclose the following periodicals: "Annual Report of the Central Bank", "Inflation Report", "Financial Stability Report", "Financial System of the Republic of Armenia: Development, Regulation and Supervision", "The Central Bank Bulletin", "The Commemorative Coins of the Republic of Armenia", the annual report on the activities of the Financial Monitoring Center. The Bank communicatesalso through its official website (www.cba.am) which contains the Central Bank Development Strategy, regular issues of periodicals, the Board minutes and press releases on the refinancing rate, and other information on the Bank's operations and activity and the financial system as a whole.

A number of meet-ups were arranged for mass media managers and representatives of the Bank management to discuss issues of relevance. During the year, journalists writing about economic aspects benefited educational workshops organized with the participation of specialists of the Bank.




Social networks remain an important platform for the Bank to publish news, messages and other materials featuring its activities.

During the year, 4 events with the participation of mass media and 15 interviews were arranged; the Bank received 17 queries in writing and numerous verbal inquiries to which it responded through an established procedure under law. Full answers were provided to 242 online inquiries from individuals and organizations. There were 148 press releases on the activities of the Bank, 27 releases on the Board meetings and 12 releases on repo interest rate published during the year.

## Visitor Center [6]

In 2018 the Visitor Center of the Bank hosted 10 804 visitors in c. Yerevan, which is a 10% increase compared to the figure (9 815 visitors) reported in the previous year.

The Center continued its educational project "One Day at the Central Bank" for the servicemen and alumni of educational institutions of the Armenian Ministry of Defense. In 2018 the Center received a total of 274 (218 in the year before) servicemen/alumni and teaching staff.

6 See details on www.visitorcentre.cba.am, www.museum.cba.am, www.cba.am.

In May 2018, the Visitor Center participated in the international program "Museums Night", and hosted 1 918 visitors in the framework of that event.

In 2018 the Center arranged an exhibition of numismatic historical and cultural values of State Treasury of Armenian Ministry of Finance.

In 2018 the Center launched its new website (visitorcentre.cba.am, museum.cba.am). As well as a comprehensive source that broadly features the Central Bank and Visitor Center activities, provides news releases and the history of the Dram, the new website now makes it possible for schools, universities, organizations and individuals to reserve their visits electronically; it allows a 360-degree virtual tour for everyone wishing to see Armenian banknotes and coins, new issues of commemorative coins, to learn their security features and get financial knowledge via educational games, to access the websites of similar visitor centers/museums of other central banks, and to read brief narrative of professional literature acquired by the Central Bank.

To host schoolchildren from all regions of Armenia, the Visitor Center cooperated with the Children of Armenia Fund (COAF), the Jinishian Memorial Foundation (JMF), the Junior Achievements of Armenia (JAA), the AGBU Vache and Tamar Manoukian High School (California), the "SOS - Children's Villages" Armenia Charity Foundation, the "Orran" Charity, the "Shogh" Day Care Center, a number of summer school for children development, the US Embassy to Armenia, the Armenian PR Association, the "Leadership School" Foundation, the "Management Mix" Consulting and Training Company, the "Tourism and Achievements", an NGO for Sustainable Development, and the Office of Financial System Mediator.

During the year, educational and informational trainings were also organized for the teachers of Yerevan International School "Shirakatsi Seminary" and Basic School no. 91 and for the teachers of Ararat State College.

## Accountability of the Bank

In fulfilling its objectives, the Bank is independent from state authorities of the Republic of Armenia. The Bank maintains its accountability pursuant to the terms and procedure determined by the Republic of Armenia Law, the Central Bank strategy and internal rules and policies.

In the framework of accountability of monetary policy implementation, the Central Bank publishes 8 decisions of the Board on the refinancing rate during the year. On the same day the decision is adopted, a press release briefly stating why the decision had to be made becomes available for public disclosure. The minutes on interest rate presenting in more detail the discussions and reasoning underlying the making of decision is released within 10 days after the decision is adopted. The Central Bank publishes the Inflation Report four times a year. This quarterly paper provides a detailed account of actual macroeconomic and monetary environments of reported periods, provides a factor analysis of fulfilment of the inflation target, and presents the main directions of the monetary policy to be implemented by the Bank and the projected path to inflation in fulfilment of the inflation target in the forecast horizon.

The Central Bank reports to the country's National Assembly its activities involving a report of the monetary policy program approved in the first quarter of the current year and the implementation of previous year's monetary policy program. The monetary policy program published by the Central Bank is lead information that covers inflation forecasts, monetary policy directions and other aspects of relevance as defined by the Board of the Bank for fulfillment of the goals set out in the law. The Central Bank publishes the status report on implementation of the monetary policy program.

The Central Bank publishes financial stability reports on a semi-annual basis; these reports contain the results of financial stability reviews.

The financial stability reports are designed to describe risks that may potentially threaten the country's financial stability in the short-term, in the context of both past and expected developments in real and financial sectors. In general, the report provides the Central Bank's assessment of financial stability for a certain period of time, existing risks and measures to prevent or neutralize them.

The report is presented at a press conference, then a regular semi-annual periodical and relevant a press release are to be posted on the Central Bank website.

Publishing of the report helps to increase the awareness of financial institutions, companies, economic agents and households and it adds to the transparency of the Central Bank's activity while enhancing the public trust towards the Central Bank.

The Bank provides its "Annual Report of the Central Bank" for public disclosure. The annual report incorporates the Bank's annual financial accounts, and an internationally recognized audit firm is appointed to verify every year their compliance to international standards.

The abovementioned documents aim to disseminate, most comprehensively and clearly, information on the implementation of the main goals of the Central Bank, thus raising the level of public confidence in the Bank.

# 5 COOPERATION WITH INTERNATIONAL ORGANIZATIONS

**The Central Bank sustained its multilateral and bilateral cooperation with international partner institutions during the year. This involved a handful of visits of partners and delegations, as follows:**

In January of 2018, a group of experts from the International Monetary Fund (IMF) visited the Central Bank of Armenia for preparing an assessment of compliance of the Armenian banking system in April and June of 2018 as part of the Financial Sector Assessment Program (FSAP).

The Central Bank received the IMF/WB (Netherlands-Belgium) Constituency delegation headed by Anthony de Lannoy, IMF Executive Director for Armenia. Issues related to bilateral cooperation, current economic situation in Armenia, monetary and fiscal policy, strengthening of Armenia's international reserves, reducing public debt and maintaining stability of the banking system were the issues addressed during the visit.

To strengthen business ties, learn about the country's macroeconomic environment and negotiate on a variety of aspects in the financial and banking sectors, a delegation led by Black Sea Trade and Development Bank President Dmitry Pankin, an Asian Development Bank's delegation, as well as the representatives of Moody's and Fitch ratings paid visits to the Central Bank during the reporting period.

The Central Bank also received the delegations of the Asian Development Bank, of the UN Security Council's Executive Board of Anti-Terrorist Committee and of China's Banking and Insurance Sector Regulatory Commission.

**In the framework of events dedicated to the 25th anniversary of introducing the Armenian dram, the Central Bank organized an international conference attended by top managers of central and national banks and high-ranking officials of international organizations.**




The Bank continued collaboration in developing international standards in the field of AML/CFT with international organizations and partner countries involved in introducing and implementing those standards, including cooperation with the Council of Europe's MONEYVAL Committee, the Egmont Group, the Parties to the Warsaw Convention, the Eurasian Group, and the Board of Directors of CIS Financial Intelligence Units.

In the context of cooperation with international institutions, the Council of Europe's MONEYVAL approved in 2018 a status report on the national assessment of AML/CFT risks, which stated that Armenia had made a good progress in implementing FATF Recommendation 1 (risk assessment and risk-based approach), Recommendation 7 (targeted financial sanctions imposed on proliferation of weapons of mass destruction) Recommendation 8 (non-profit organizations).

As part of cooperation with foreign financial intelligence units, the Bank received 29 requests and made 54 requests to FIUs during 2018. Most requests were made to the FIUs of the United States, Latvia, Russia, France, Great Britain, Cyprus, Germany and, consequently, most requests were received from those of Moldova, Russia, Uzbekistan, India, and Latvia.

**The following business meetings, conferences, workshops organized by the Bank during the year are worth mentioning:**

- A roundtable on innovative payment services, organized jointly with Master Card, with the participation of representatives of Armenian commercial banks.
- The Bank has actively engaged in the activities of all the committees that function in the framework of the Eurasian integration. Main meetings of the commissions and committees which were held in Armenia included:
  - The 6th consumer protection and financial accessibility advisory meeting of central/national banks of the Eurasian Economic Union.
  - The 17th currency policy consultation of central/national banks of the Eurasian Economic Union.
  - The 57th meeting of the board of Interstate Bank.
- A meeting with the KfW Development Bank, Germany, to discuss the introduction of an insurance system in the agricultural sector.
- The Asian Regional Forum on "Investment Management of Foreign Exchange Reserves" was organized jointly with the Central Bank of Armenia and the Asian Development Bank.
- The regular (8th) meeting of regional advisory group on issues of financial stability of CIS countries.

**In 2018 the Bank concluded agreements, contracts and memoranda of understanding with central banks of other countries as part of both bilateral cooperation and in the framework of intergovernmental committees.**

In particular, the following were concluded in Yerevan:

- The FATCA agreement between the Central Bank and the US Embassy.
- The agreement between the central banks of Armenia and Russia on cooperation in the fight against computer attacks.
- The agreement on harmonization of financial market legislation in EEU member states.

- The memorandum of understanding between the Central Bank and the Banking and Insurance Regulatory Commission of China.
- The € 50 million loan agreement between the Central Bank and the European Investment Bank to finance SME sector projects.

The Bank's enhanced cooperation with international partner central banks as well as respected scientific and educational and financial establishments continued in the reporting period.

During the year, employees of the Bank attended a variety of training courses, workshops, consultations, symposiums conferences and roundtables, as well as made visits for sharing of experience, both in Armenia and abroad.

In 2018 the Bank hosted a dozen of regional and international symposiums, conferences, seminars, workshops, forums, etc. in its Yerevan Head Office and Dilijan Training and Research Center. In particular, in the framework of cooperation between central/national banks of the Eurasian Economic Union and the CIS Member-States, the Dilijan TRC hosted 4 trainings attended by about 90 representatives of banks from EEU and other countries. Furthermore, there were tailor-made workshops and work visits for sharing of experience, with 25 employees having presented the Central Bank's best experience. Other events hosted by the Dilijan TRC included:

- An international training course "Protection of Consumer Rights and Financial Education" jointly organized with Alliance for Financial Inclusion, AFI, as part of the Unified Educational Program.
- An international training course "Technological Risk Control" with the participation of experts from the Toronto Center.
- An international conference "Introducing International Financial Statistics Standards to the Eurasian Economic Union" with the aim to help implement those standards by improving the coordination of statistical activities at national and international levels. Further, a number of work groups met to address how the statistics is handled with entities in public finances, monetary and financial sectors.
- An international conference "External Sector Statistics" was organized for the first time jointly with the Irving Fisher Committee on Central Bank Statistics, BIS, to bring together

external sector statisticians, policy makers, economists and researchers from central banks and other institutions for sharing their experiences and views. The conference was an ideal venue to address issues and shortcomings relevant to external sector statistics, data compilation methods, new sources for data collection and disclosure of external sector risks. As much as 45 specialists from international organizations in 25 countries attended the conference. They appeared with presenting 22 scientific works which were subsequently published and posted on the Irving Fisher website.

- A regional training course "DSGE Modeling in a Central Bank and the DYNARE Software Package".
- An international training course "Credit Risk Analysis" was conducted jointly with the US Federal Reserve Bank.

In 2018 the Central Bank hosted a seminar "Banknotes Issuance: the New 3rd Series" with the participation of experts from Giesecke և Devrient, Germany.

The seminar "How to Attract Customers and Increase Sales in New Economic Realities" was held for the representatives of Armenian commercial banks and the Central Bank, with the participation of the European Fund for Southeast Europe (EFSE).

Overall, 48 events/programs were organized by and in cooperation with the Central Bank in Armenia, with about 500 representatives from the Bank and about 800 representatives from central/national banks of other countries, international organizations, Armenian commercial banks and other government departments.

6

# ANNUAL FINANCIAL ACCOUNTS

## OF THE CENTRAL BANK

# Central Bank of the Republic of Armenia

# International Financial Reporting Standards Consolidated financial statements

*for the year ended 31 December 2018*
*together with independent auditor's report*

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# Independent auditor's report

To the Board of the Central Bank of the Republic of Armenia

***Opinion***

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (together, the Group), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2018, the consolidated statement of financial position as at 31 December 2018, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

***Basis for opinion***

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

***Other information included in the Group's 2018 Annual report***

Other information consists of the information included in the 2018 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of management and the Board of the Central Bank of Armenia for the consolidated financial statements***

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

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

The Board of the Central Bank of Armenia is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young CJSC
Yerevan, Armenia

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

29 March 2019

A member firm of Ernst & Young Global Limited

## Consolidated statement of comprehensive income

## For the year ended 31 December 2018

| *In thousands of Armenian Drams* | *Note* | *2018* | *2017* |
|---|---|---|---|
| Interest income | 4 | 27,985,211 | 24,810,893 |
| Interest expense | 5 | (16,477,039) | (14,000,482) |
| **Net interest income** | | **11,508,172** | **10,810,411** |
| Credit loss expense | | (93,852) | – |
| **Net interest income after credit loss expense** | | **11,414,320** | **10,810,411** |
| Fee and commission income | | 334,616 | 104,163 |
| Fee and commission expense | | (896,176) | (827,766) |
| Net foreign exchange (loss)/gain | 6 | (2,986,567) | 5,522,258 |
| Net gain/(loss) on derivatives | 7 | 468,802 | (419,692) |
| Net gain on financial instruments at fair value through profit or loss | 8 | 11,938,436 | 5,282,609 |
| Net gain on assets available-for-sale | | – | 291,035 |
| Other income | 9 | 3,736,415 | 3,852,261 |
| Cost of production of banknotes, coins and numismatics | 10 | (5,023,216) | (570,486) |
| Other expenses | 11 | (19,384,341) | (20,473,094) |
| **(Loss)/profit before tax** | | **(397,711)** | **3,571,699** |
| Income tax expense | | (1,945,595) | (1,688,453) |
| **(Loss)/profit for the year** | | **(2,343,306)** | **1,883,246** |
| **(Loss)/profit is attributable to:** | | | |
| Owners of the Bank | | (2,373,281) | 1,856,156 |
| Non-controlling interest | | 29,975 | 27,090 |
| **Other comprehensive (loss)/income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net unrealised gain from changes in fair value of debt financial assets measured through other comprehensive income | | 290,656 | – |
| Changes in allowance for expected credit losses of debt financial assets at fair value through other comprehensive income | | (5,717) | – |
| Net unrealised gain from changes in fair value of available-for-sale assets | | – | 1,123,763 |
| Net realised gain on investment securities available-for-sale reclassified to the statement of profit or loss | | – | (291,035) |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | | **284,939** | **832,728** |
| *Other comprehensive loss not to be reclassified to profit or loss in subsequent periods* | | | |
| Net loss on equity instruments at fair value through other comprehensive income | | (406,716) | – |
| **Total other comprehensive loss not to be reclassified to profit or loss in subsequent periods** | | **(406,716)** | – |
| **Other comprehensive (loss)/income for the year** | | **(121,777)** | **832,728** |
| **Total comprehensive (loss)/income for the year** | | **(2,465,083)** | **2,715,974** |
| **Total comprehensive (loss)/income is attributable to:** | | | |
| Owners of the Bank | | (2,504,709) | 2,676,378 |
| Non-controlling interest | | 39,626 | 39,596 |

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 29 March 2019 and were signed by:

**Arthur Javadyan**
Chairman of the Central Bank
of the Republic of Armenia

**Marianna Amirbekyan**
Chief Accountant of the Central Bank
of the Republic of Armenia

*The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.*

# Consolidated statement of financial position

## As at 31 December 2018

| *In thousands of Armenian Drams* | *Note* | *31 December 2018* | *31 December 2017* |
|---|---|---|---|
| **Assets** | | | |
| **Foreign currency assets** | | | |
| Cash | | 42,238,172 | 45,575,878 |
| Placements with banks and other financial institutions | 12 | 348,066,857 | 338,451,346 |
| Financial instruments at fair value through profit or loss | 13 | 704,860,473 | 707,060,655 |
| Derivative financial assets | 14 | 43,849 | 202,928 |
| Financial assets measured at fair value through other comprehensive income | 15 | 2,985,864 | – |
| Available-for-sale assets | 15 | – | 2,321,188 |
| Held-to-maturity assets | 15 | – | 32,089,943 |
| Placements with the IMF | 16 | 89,548,497 | 92,296,129 |
| Other assets | | 160,687 | 325,614 |
| **Total foreign currency assets** | | **1,187,904,399** | **1,218,323,681** |
| **Domestic currency assets** | | | |
| Placements and investments with banks and other financial institutions | 12 | 443,648,161 | 307,508,525 |
| Financial assets measured at fair value through other comprehensive income | 15 | 88,280,524 | – |
| Available-for-sale assets | 15 | – | 92,039,044 |
| Property and equipment | 17 | 68,740,919 | 73,096,780 |
| Intangible assets | 18 | 2,790,723 | 3,037,110 |
| Other assets | 19 | 14,795,146 | 15,253,394 |
| **Total domestic currency assets** | | **618,255,473** | **490,934,853** |
| **Total assets** | | **1,806,159,872** | **1,709,258,534** |
| **Liabilities** | | | |
| **Foreign currency liabilities** | | | |
| Deposits and accounts of financial and other institutions | 20 | 247,315,663 | 179,414,268 |
| Due to the Government of the Republic of Armenia | 23 | 5,822,025 | 1,242,391 |
| Derivative financial liabilities | 14 | 97,040 | 13,184 |
| Due to the IMF | 16 | 266,323,100 | 291,752,144 |
| Other borrowed funds | 21 | 151,710,752 | 155,581,621 |
| Other liabilities | | 767,226 | 498,396 |
| **Total foreign currency liabilities** | | **672,035,806** | **628,502,004** |
| **Domestic currency liabilities** | | | |
| Notes and coins in circulation | | 566,706,467 | 516,094,481 |
| Deposits and accounts of financial and other institutions | 20 | 367,193,187 | 385,491,051 |
| Due to the Government of the Republic of Armenia | 23 | 184,926,978 | 161,501,459 |
| Debt securities issued | 24 | 7,838,688 | 4,751,824 |
| Other liabilities | 22 | 4,503,420 | 4,648,825 |
| **Total domestic currency liabilities** | | **1,131,168,740** | **1,072,487,640** |
| **Total liabilities** | | **1,803,204,546** | **1,700,989,644** |
| **Equity** | | | |
| Issued capital | 25 | 100,000 | 100,000 |
| General reserve | | 25,480,248 | 25,480,248 |
| Promissory Note issued by the Government | 25 | 73,810,843 | 73,810,843 |
| Revaluation reserve for financial assets measured at fair value through other comprehensive income | 25 | 1,838,897 | – |
| Revaluation reserve for available-for-sale assets | 25 | – | 1,903,879 |
| Accumulated deficit | | (99,172,325) | (93,984,117) |
| **Net assets attributable to owners of the Bank** | | **2,057,663** | **7,310,853** |
| Non-controlling interest | | 897,663 | 958,037 |
| **Total equity** | | **2,955,326** | **8,268,890** |
| **Total liabilities and equity** | | **1,806,159,872** | **1,709,258,534** |

*The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.*

## Consolidated statement of changes in equity

## For the year ended 31 December 2018

| | *Attributable to owners of the Bank* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Issued capital*** | ***General reserve*** | ***Promissory note issued by the Government*** | ***Revaluation reserve for financial assets measured at fair value through other comprehensive income/Available -for-sale financial assets*** | ***Accumulated deficit*** | ***Total*** | ***Non-controlling interest*** | ***Total equity*** |
| **Balance at 1 January 2017** | **100,000** | **25,480,248** | **73,810,843** | **1,083,657** | **(95,840,273)** | **4,634,475** | **743,295** | **5,377,770** |
| Acquisition of a subsidiary | – | – | – | – | – | – | 163,000 | **163,000** |
| Decrease of share in a subsidiary | – | – | – | – | – | – | 12,146 | **12,146** |
| Profit for the year | – | – | – | – | 1,856,156 | **1,856,156** | 27,090 | **1,883,246** |
| Other comprehensive income | – | – | – | 820,222 | – | **820,222** | 12,506 | **832,728** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **820,222** | **1,856,156** | **2,676,378** | **39,596** | **2,715,974** |
| **Balance at 31 December 2017** | **100,000** | **25,480,248** | **73,810,843** | **1,903,879** | **(93,984,117)** | **7,310,853** | **958,037** | **8,268,890** |
| Impact of adopting IFRS 9 (Note 2) | – | – | – | 66,446 | (2,814,927) | **(2,748,481)** | – | **(2,748,481)** |
| **Restated opening balance under IFRS 9** | **100,000** | **25,480,248** | **73,810,843** | **1,970,325** | **(96,799,044)** | **4,562,372** | **958,037** | **5,520,409** |
| Increase of share in a subsidiary | – | – | – | – | – | **–** | (100,000) | **(100,000)** |
| Loss for the year | – | – | – | – | (2,373,281) | **(2,373,281)** | 29,975 | **(2,343,306)** |
| Other comprehensive loss | – | – | – | (131,428) | – | **(131,428)** | 9,651 | **(121,777)** |
| **Total comprehensive loss for the year** | **–** | **–** | **–** | **(131,428)** | **(2,373,281)** | **(2,504,709)** | **39,626** | **(2,465,083)** |
| **Balance at 31 December 2018** | **100,000** | **25,480,248** | **73,810,843** | **1,838,897** | **(99,172,325)** | **2,057,663** | **897,663** | **2,955,326** |

*The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.*

## Consolidated statement of cash flows

## For the year ended 31 December 2018

| *In thousands of Armenian Drams* | ***Note*** | ***2018*** | ***2017*** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **(Loss)/profit before tax** | | **(397,711)** | **3,571,699** |
| *Adjustments to reconcile (loss)/profit for the year to net cash flows* | | | |
| Depreciation and amortisation | 11 | 4,649,127 | 4,699,999 |
| Loss from disposal of property and equipment | | 1,429 | 1,601 |
| Change in interests receivable | | (58,784) | 149,287 |
| Change in interests payable | | 331,968 | 634,626 |
| Net loss/(gain) from foreign exchange translation | 6 | 3,335,741 | (5,100,923) |
| Net (gain)/loss from re-measurement of financial instruments at fair value | | (939,807) | 1,230,115 |
| Net gain on assets available-for-sale | | – | (291,035) |
| Credit loss expense | | 93,852 | – |
| Other expenses | | – | 478,742 |
| Income tax paid | | (1,905,678) | (1,544,292) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **5,110,137** | **3,829,819** |
| *Net (increase)/decrease in operating assets* | | | |
| Placements with banks and other financial institutions in foreign currency | | 12,920,447 | (21,449,963) |
| Financial instruments at fair value through profit or loss and derivative financial instruments | | 29,051,403 | (102,494,666) |
| Placements and investments with banks and financial other institutions in domestic currency | | (139,221,508) | (22,812,471) |
| Other assets | | 543,410 | 1,212,644 |
| *Net increase/(decrease) in operating liabilities* | | | |
| Notes and coins in circulation | | 50,611,986 | 60,692,899 |
| Deposits and accounts of financial and other institutions | | 52,122,131 | (28,454,791) |
| Due to the Government of the Republic of Armenia | | 28,565,401 | (21,872,821) |
| Debt securities issued | | 3,013,273 | (4,137,300) |
| Other liabilities | | 102,171 | 569,427 |
| **Net cash flows from/(used in) operating activities** | | **42,818,851** | **(134,917,223)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, equipment and intangible assets | | (1,066,933) | (4,123,468) |
| Proceeds from sale of property and equipment | | 987,991 | 1,042,076 |
| Proceeds from sale and redemption of available-for-sale assets | | – | 10,888,357 |
| Proceeds from sale and redemption of financial assets measured at fair value through other comprehensive income | | 2,814,866 | – |
| Increase in share of subsidiary | | (100,000) | – |
| Purchase of held-to-maturity assets | | – | (24,040,370) |
| Proceeds from redemption of held-to-maturity assets | | – | 26,295,240 |
| Acquisition of a subsidiary | | – | (200,000) |
| **Net cash flows from investing activities** | | **2,635,924** | **9,861,835** |
| **Cash flows from financing activities** | | | |
| Loans received | | 9,419,398 | 52,568,044 |
| Loans redeemed | | (29,292,741) | (23,274,235) |
| Decrease of share in a subsidiary | | – | 12,146 |
| **Net cash flows (used in)/from financing activities** | | **(19,873,343)** | **29,305,955** |
| Effect of exchange rate changes on cash and cash equivalents | | (5,876,406) | 14,499,222 |
| **Net increase/(decrease) in cash and cash equivalents** | | **19,705,026** | **(81,250,211)** |
| Cash and cash equivalents at the beginning of the year | 28 | 336,262,524 | 417,512,735 |
| **Cash and cash equivalents at the end of the year** | 28 | **355,967,550** | **336,262,524** |
| **Supplementary information** | | | |
| Interest received | | 27,926,427 | 24,960,180 |
| Interest paid | | (16,145,071) | (13,365,856) |

*The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.*

## 1. Principal activities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2018 and for the year then ended for the Central Bank of the Republic of Armenia (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law on the Central Bank of the Republic of Armenia (the "Law") and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2018 was 746 (2017: 771).

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

In accordance with the Law the prime objective of the Bank is ensuring price stability and financial stability in the Republic of Armenia. In order to ensure price stability the Central Bank develops, approves and implements monetary policy programs. In addition to its prime objective, the Bank is also responsible for:

- Ensuring the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia; and
- Creation and development of an effective payment and settlement system.

The Bank also:

- Issues the national currency of the Republic of Armenia and regulates its circulation;
- Organises and regulates anti money laundering and anti-terrorism financing activities;
- Collects, tabulates and publishes monetary statistics and statistics on the financial system, the balance of payments, the international investment position, and external debt;
- Secures the conditions necessary for the protection of investors in securities, for forming and retaining a system of fair pricing of securities in the market, and for the regulated and normal activity and development of a fair, transparent, and trustworthy market of securities;
- Secures the conditions necessary for protecting the rights and lawful interests of consumers in the financial system;
- Ensures free and fair economic competition in the financial system;
- Is the financial agent and advisor of the Government of the Republic of Armenia (the "Government");
- Licenses commercial banks and, in cases envisaged by the legislation, other entities, supervises and regulates their activities;
- Is the lender of last resort to commercial banks; and
- Owns, uses and manages international reserves of the Republic of Armenia.

The Bank's largest subsidiaries are as follows:

| *Name* | *Country of incorporation* | *Principal activity* | *Controlled, %* | | *Date of establishment* |
|---|---|---|---|---|---|
| | | | *2018* | *2017* | |
| "Armenian Card" CJSC | Republic of Armenia | Payment and settlement services | 56.25 | 56.25 | March 2000 |
| "Hayincassatsia" CJSC | Republic of Armenia | Transportation/ delivery of cash | 100.00 | 100.00 | April 1998 |
| "National Mortgage Company" RCO CJSC | Republic of Armenia | Mortgage refinancing | 100.00 | 100.00 | June 2009 |
| "Home for Youth" RCO CJSC | Republic of Armenia | Mortgage refinancing | 100.00 | 100.00 | February 2010 |
| "Small and Medium Business Credit Support" CJSC | Republic of Armenia | Lending support | 100.00 | 100.00 | December 2010 |
| "Vehicle Single Window" CJSC | Republic of Armenia | Insurance infrastructure support | 100.00 | 100.00 | December 2013 |
| "Stak Processing" CJSC | Republic of Armenia | Payment and settlement services | 100.00 | 100.00 | December 2017 |
| "Stak Money Transfer" CJSC | Republic of Armenia | Payment and settlement services | 82.64 | 55.09 | December 2017 |

## 2. Summary of significant accounting policies

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year then ended 31 December 2018 for the Bank and its subsidiaries.

### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, financial assets at fair value through other comprehensive income, and financial instruments categorised at fair value through profit or loss, including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### (c) Form of presentation of the financial statements

In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

### (d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

### (e) Use of estimates and judgments

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

*Fair value*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

*Assessment of impairment*

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

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL ("LTECL") basis and the qualitative assessment;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of defaults ("PD"), exposure at defaults ("EAD") and loss given defaults (LGD);
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

## 2. Summary of significant accounting policies (continued)

### (e) Use of estimates and judgments (continued)

*Transactions with related parties*

In the normal course of business the Group enters into transactions with its related parties. IAS 39 and IFRS 9 require initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

*Accounting for operations with the International Monetary Fund (the "IMF")*

In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the Law of the Republic of Armenia *On Membership of the Republic of Armenia in the International Monetary Fund, International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes*, the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia.

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depositary function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss.

### (f) Adoption of new or revised standards and Interpretations

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

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

IFRS 9 Financial Instruments

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

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

Classification and measurement

For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

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

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

## 2. Summary of significant accounting policies (continued)

### (f) Adoption of new or revised standards and Interpretations (continued)

Classification and measurement (continued)

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

Impairment

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

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

Effect of transition to IFRS 9

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

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

| *In thousands of Armenian Drams* | | *IAS 39 measurement* | | | *Remeasurement* | | *IFRS 9* | |
|---|---|---|---|---|---|---|---|---|
| ***Financial assets*** | ***Ref*** | ***Cate-gory*** | ***Amount*** | ***Reclassification*** | ***ECL*** | ***Other*** | ***Amount*** | ***Category*** |
| Cash and cash equivalents | | L&R | 45,575,878 | – | – | – | 45,575,878 | Amortised cost |
| Financial instruments at fair value through profit or loss | A | FVPL | 707,060,655 | 32,089,943 | – | – | 739,150,598 | FVPL |
| Derivative financial assets | | FVPL | 202,928 | – | – | – | 202,928 | FVPL |
| Placements with banks and other financial institutions in foreign currency | | L&R | 338,451,346 | – | (102,692) | – | 338,348,654 | Amortised cost |
| Placements with the IMF | | L&R | 92,296,129 | – | – | – | 92,296,129 | Amortised cost |
| Placements and investments with banks and other financial institutions in domestic currency | | L&R | 307,508,525 | – | (2,678,727) | – | 304,829,798 | Amortised cost |
| Held-to-maturity assets in foreign currency | A | HTM | 32,089,943 | (32,089,943) | – | – | – | |
| Available-for-sale assets in foreign currency, including | | | | | | | | |
| - Equity investments at cost | | AFS | 3,211 | (3,211) | – | – | – | |
| - Equity investments at FVOCI | | AFS | 2,317,977 | (2,317,977) | – | – | – | |
| *To: Financial assets measured at fair value through other comprehensive income in foreign currency* | | | – | *2,321,188* | – | – | *2,321,188* | *FVOCI (equity)* |
| Available-for-sale assets in domestic currency, including | | | | | | | | |
| - Debt instruments | | AFS | 91,332,221 | (91,332,221) | – | – | – | |
| - Equity investments at cost | | AFS | 706,823 | (706,823) | – | – | – | |
| *To: Financial assets measured at fair value through other comprehensive income in domestic currency* | | | – | *91,332,221* | – | – | *91,332,221* | *FVOCI (debt)* |
| *To: Financial assets measured at fair value through other comprehensive income in domestic currency* | | | – | *706,823* | – | – | *706,823* | *FVOCI (equity)* |
| Other financial assets | | L&R | 2,418,111 | – | (50,194) | – | 2,367,917 | Amortised cost |
| **Total assets** | | | **1,619,963,747** | **–** | **(2,831,613)** | **–** | **1,617,132,134** | |
| Non-financial liabilities | | | | | | | | |
| Deferred tax liabilities | | | 296,229 | – | – | (83,132) | 213,097 | |
| **Total liabilities** | | | **296,229** | | | **(83,132)** | **213,097** | |

1 L&R: Loans and receivables.

2 HTM: Held-to-maturity.

3 AFS: Available-for-sale.

A As of 1 January 2018, the Group reclassified held-to maturity assets into category of financial instruments at fair value through profit or loss as the Group changed its investment policy and started performing active management of securities previously included in Held-to-maturity category.

## 2. Summary of significant accounting policies (continued)

### (f) Adoption of new or revised standards and Interpretations (continued)

Effect of transition to IFRS 9 (continued)

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

| *In thousands of Armenian Drams* | ***Reserves and retained earnings*** |
|---|---|
| Fair value reserve | |
| Closing balance under IAS 39 (31 December 2017) | 1,903,879 |
| Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI | 66,446 |
| **Restated opening balance under IFRS 9 (1 January 2018)** | **1,970,325** |
| Accumulated deficit | |
| Closing balance under IAS 39 (31 December 2017) | (93,984,117) |
| Recognition of IFRS 9 ECLs including those measured at FVOCI | (2,898,059) |
| Deferred tax in relation to the above | 83,132 |
| **Restated opening balance under IFRS 9 (1 January 2018)** | **(96,799,044)** |
| **Total change in equity due to adopting IFRS 9** | **(2,748,481)** |

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

The following table reconciles the aggregate opening loan loss allowances under IAS 39 to the ECL allowances under IFRS 9.

| *In thousands of Armenian Drams* | ***Loan loss allowance under IAS 39 at 31 December 2017*** | ***Re-measurement*** | ***ECL under IFRS 9 at 1 January 2018*** |
|---|---|---|---|
| **Impairment allowance for** | | | |
| Placements with banks and other financial institutions in foreign currency | – | 102,692 | 102,692 |
| Placements and investments with banks and other financial institutions in domestic currency | – | 2,678,727 | 2,678,727 |
| Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9 | – | 66,446 | 66,446 |
| Other financial assets | – | 50,194 | 50,194 |
| | **–** | **2,898,059** | **2,898,059** |

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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

Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

## 2. Summary of significant accounting policies (continued)

### (g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power to direct relevant activities of the investees that significantly affect their returns;
- Exposure, or rights, to variable returns from its involvement with the investees; and
- The ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

*Associates*

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

### (h) Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of comprehensive income.

## 2. Summary of significant accounting policies (continued)

### (h) Foreign currency translation and presentation of foreign currency items (continued)

As at 31 December 2018 and 31 December 2017, the exchange rates used for translating foreign currency balances were as follows:

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| AMD / 1 US dollar | 483.75 | 484.10 |
| AMD / 1 Euro | 553.65 | 580.10 |
| AMD / 1 SDR (Special Drawing Rights) | 672.79 | 689.42 |

### (i) Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

### (j) Financial instruments – key measurement terms

The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

## 2. Summary of significant accounting policies (continued)

### (j) Financial instruments – key measurement terms (continued)

*Initial measurement*

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

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

Amortised cost;

FVOCI;

FVPL.

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

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

*Date of recognition*

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial instruments classified as held for trading are included in the category "Financial instruments at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading, including interest income on trading debt securities are recognised in profit or loss as net gain/(loss) on financial instruments at fair value through profit and loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

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

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

*Amounts due from credit institutions, loans to customers, investments securities at amortised cost*

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

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

## 2. Summary of significant accounting policies (continued)

### (j) Financial instruments – key measurement terms (continued)

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

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

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

## 2. Summary of significant accounting policies (continued)

### (j) Financial instruments – key measurement terms (continued)

Debt instruments at FVOCI (continued)

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

Equity instruments at FVOCI

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

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

Held-to-maturity assets

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

Loans and receivables

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

Available-for-sale financial assets

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

Reclassification of financial assets

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

*Borrowings*

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government and the IMF, other borrowed funds and debt securities issued.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

## 2. Summary of significant accounting policies (continued)

### (j) Financial instruments – key measurement terms (continued)

*Accounting for zero interest rate loans*

The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

*Derecognition of financial assets and liabilities*

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

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

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

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

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

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

### (k) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

### (l) Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo") are treated as secured financial transactions.

Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell ("reverse repo agreements") are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

## 2. Summary of significant accounting policies (continued)

### (m) Securities lending and borrowing

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain on financial instruments at fair value through profit or loss in profit or loss. The obligation to return them is recorded within financial liabilities at fair value through profit or loss.

### (n) Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognised in profit or loss as incurred.

### (o) Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of comprehensive income for the current year.

### (p) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

*Depreciation*

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | ***2018*** | ***2017*** |
|---|---|---|
| Land and buildings | | |
| - Buildings | 30-80 years | 30-80 years |
| - Building technical systems | 3-20 years | 3-20 years |
| Networks, computer and other equipment | 2-15 years | 2-15 years |
| Vehicles | 5 years | 5 years |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

### (q) Non-current assets classified as held for sale

Non-current assets are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

## 2. Summary of significant accounting policies (continued)

### (r) Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Computer software maintenance costs are recognised in profit or loss as incurred.

### (s) Operating leases – Group as lessee

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

### (t) Impairment

Impairment of financial assets under IAS 39

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (t) Impairment (continued)

*Non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

All impairment losses are recognised in consolidated statement of comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

### (u) Provisions

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

### (v) Taxation

The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

### (w) Issued capital

Issued capital represents the authorised capital of the Bank, which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as Promissory Note issued by the Government in the Equity of the Group.

### (x) Profit allocation

The profit of the Group determined based on its consolidated financial statements shall be allocated as follows:

a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;

b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

The balance of the profit of the Group remaining after hereinbefore deductions shall be paid to the state budget.

The calculation of the profit of the Group to be paid to the state budget shall not include positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous.

### (y) Contingencies

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

## 2. Summary of significant accounting policies (continued)

### (z) Interest income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

### (aa) Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period.

## 3. New accounting pronouncements

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

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant for the Group's consolidated financial statements.

*IFRS 16 Leases*

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

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

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

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

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

## 3. New accounting pronouncements (continued)

*IFRS 16 Leases (continued)*

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group does not expect a material effect from adoption of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

## 3. New accounting pronouncements (continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

## 4. Interest income

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Interest income from foreign currency assets** | | |
| Nostro accounts | 1,354,020 | 1,417,593 |
| Term deposits | 597,257 | 574,152 |
| Placements with the IMF | 18,015 | 12,775 |
| Assets held-to-maturity | – | 136,788 |
| Other | 99,022 | 211,466 |
| **Total interest income from foreign currency assets** | **2,068,314** | **2,352,774** |
| **Interest income from domestic currency assets** | | |
| Placements and investments with banks and other financial institutions | 24,458,016 | 20,059,693 |
| Financial assets measured at fair value through other comprehensive income | 1,458,881 | – |
| Available-for-sale assets | – | 2,398,426 |
| **Total interest income from domestic currency assets** | **25,916,897** | **22,458,119** |
| **Total interest income calculated using effective interest rate** | **27,985,211** | **24,810,893** |

## 5. Interest expense

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Interest expense on foreign currency liabilities** | | |
| Other borrowed funds | 3,735,460 | 2,960,515 |
| Due to the IMF | 2,810,517 | 2,200,430 |
| **Total interest expense on foreign currency liabilities** | **6,545,977** | **5,160,945** |
| **Interest expense on domestic currency liabilities** | | |
| Due to the Government (Note 27) | 8,049,811 | 6,397,728 |
| Deposits and accounts of financial and other institutions | 1,034,651 | 1,574,393 |
| Debt securities issued | 710,782 | 759,625 |
| Other | 135,818 | 107,791 |
| **Total interest expense on domestic currency liabilities** | **9,931,062** | **8,839,537** |
| **Total interest expense** | **16,477,039** | **14,000,482** |

## 6. Net foreign exchange (loss)/gain

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Net (loss)/gain from foreign exchange translation | (3,335,741) | 5,100,923 |
| Net gain on spot transactions | 349,174 | 421,335 |
| **Total net foreign exchange (loss)/gain** | **(2,986,567)** | **5,522,258** |

Included in the net (loss)/gain from revaluation of monetary assets and liabilities is a foreign exchange translation loss of AMD 8,455,505 thousand on financial instruments at fair value through profit or loss (2017: gain in the amount of AMD 12,373,119 thousand).

## 7. Net gain/(loss) on derivatives

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Net gain/(loss) on forward contract with the Government (Note 27) | 552,850 | (473,190) |
| Net loss on swaps under own management | (59,840) | – |
| Net (loss)/gain on futures under own management | (24,208) | 53,498 |
| **Total net gain/(loss) on derivatives** | **468,802** | **(419,692)** |

In accordance with the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law *On the State Budget of the Republic of Armenia*. Gain or loss of the Bank as a result of such foreign currency exchange operations is accounted for as result on derivatives.

## 8. Net gain on financial instruments at fair value through profit or loss

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Net gain on foreign securities under own management (excluding foreign exchange translation*) | 12,789,190 | 5,941,381 |
| Net loss on assets under trust management (excluding foreign exchange translation*) | (824,518) | (482,757) |
| Net gain on money market instruments under own management (excluding foreign exchange translation*) | 156,277 | 3,547 |
| Trust management fees (excluding foreign exchange translation*) | (182,513) | (179,562) |
| **Total net gain on financial instruments at fair value through profit or loss** | **11,938,436** | **5,282,609** |

* *The foreign exchange translation of assets is included in "Net foreign exchange (loss)/gain" (Refer to Note 6).*

## 9. Other income

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Numismatic coins | 651,905 | 599,790 |
| Financial agency fee | 259,379 | 599,952 |
| Other | 2,825,131 | 2,652,519 |
| **Total other income** | **3,736,415** | **3,852,261** |

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2018, the amount of AMD 2,091,643 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2017: AMD 2,006,683 thousand).

## 10. Cost of production of banknotes, coins and numismatics

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Production of banknotes and coins | 4,477,131 | 2,713 |
| Production of numismatic coins sold during the year | 546,085 | 567,773 |
| **Total cost of production of banknotes, coins and numismatics** | **5,023,216** | **570,486** |

In connection with the 25th anniversary of the Armenian Dram, in 2018, the Central Bank has issued and circulated the third series of banknotes of the Republic of Armenia, addressing a number of important issues of Armenian Dram protection by applying printing technology innovations. The banknotes structure has been optimized with the introduction of a new banknote with a nominal value of 2000 AMD. The third series of banknotes are represented by nominal values of 1000, 2000, 5000, 10 000, 20 000 and 50 000 AMD.

## 11. Other expenses

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Employee compensation, staff training and related payments | 8,149,397 | 8,406,039 |
| Depreciation and amortisation | 4,649,127 | 4,699,999 |
| Repairs and maintenance | 1,864,696 | 1,927,505 |
| Education, research and development of new projects | 742,417 | 364,362 |
| Expenses on development and maintenance of payment system | 482,285 | 617,656 |
| Security and insurance expenses | 434,751 | 436,928 |
| Professional services | 188,075 | 226,870 |
| Expenses for Basel requirements implementation | 78,014 | 266,969 |
| Other | 2,795,579 | 3,526,766 |
| **Total other expenses** | **19,384,341** | **20,473,094** |

During the year ended 31 December 2018 and 31 December 2017, the expenses included into “Other” line represent subscription fees, communication expenses, utilities, rent expenses and stationary of the Bank and its subsidiaries.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2018 and 31 December 2017 also include respective amounts of expenses of the Group’s subsidiaries.

## 12. Placements and investments with banks and other financial institutions

### Placements with banks and other financial institutions in foreign currency

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Placements with banks and other financial institutions in foreign currency** | | |
| Nostro accounts | 310,841,888 | 287,195,009 |
| Term deposits | 31,563,991 | 33,603,980 |
| Cash included in assets under trust management | 5,689,324 | 3,118,396 |
| Margin requirements of interest rate futures | 56,931 | – |
| Repurchase agreements | – | 14,533,961 |
| Impairment allowance | (85,277) | – |
| **Total placements with banks and other financial institutions in foreign currency** | **348,066,857** | **338,451,346** |

**Concentration of placements with banks and other financial institutions in foreign currency**

As at 31 December 2018 the Group had placements in three banks with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2018 amounted to AMD 253,141,892 thousand (31 December 2017: placements with one bank amounted to AMD 141,697,750 thousand).

The term deposits have up to three months remaining maturity with the interest rate from 0.001% to 2.91% (31 December 2017: 0.57% to 1.80%).

As at 31 December 2018 AMD 5,689,324 thousand balance of cash included in assets under trust management (31 December 2017: AMD 3,118,396 thousand) represent balance maintained by the Bank for settlements under operations with foreign securities and futures within the framework of Agreement on investment management.

## 12. Placements and investments with banks and other financial institutions (continued)

### Placements with banks and other financial institutions in foreign currency (continued)

**Allowance for impairment of placements with banks and other financial institutions in foreign currency at amortised cost**

As at 31 December 2018 AMD 1,451,250 thousand of term deposits denominated in foreign currency (31 December 2017: AMD 1,452,300 thousand of term deposits) are pledged to secure bonds issued by the Group (refer to Note 24).

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2018 is as follows:

| ***Placements with banks and other financial institutions in foreign currency*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | 338,451,346 | **338,451,346** |
| New assets originated or purchased | 343,301,206 | **343,301,206** |
| Assets repaid | (333,600,418) | **(333,600,418)** |
| **At 31 December 2018** | **348,152,134** | **348,152,134** |

| ***Placements with banks and other financial institutions in foreign currency*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **ECL as at 1 January 2018** | 102,692 | **102,692** |
| New assets originated or purchased | 1,730 | **1,730** |
| Assets repaid | (17,865) | **(17,865)** |
| Changes to models and inputs used for ECL calculations | (1,280) | **(1,280)** |
| **At 31 December 2018** | **85,277** | **85,277** |

### Placements and investments with banks and other financial institutions in domestic currency

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Placements and investments with banks and other financial institutions in domestic currency** | | |
| Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank | 127,837,551 | 122,810,147 |
| Repurchase agreements and other overnight facilities | 163,433,113 | 36,918,863 |
| Mortgage refinancing | 76,566,659 | 70,673,468 |
| Deposits and current accounts placed in commercial banks | 50,942,450 | 49,852,349 |
| Investments measured at amortised cost | 24,090,275 | 23,925,036 |
| Other loans | 3,579,296 | 3,328,662 |
| Impairment allowance | (2,801,183) | – |
| **Total placements and investments with banks and other financial institutions in domestic currency** | **443,648,161** | **307,508,525** |

**Concentration of placements and investments with banks and other financial institutions in domestic currency**

As at 31 December 2018 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2017: two banks).

Loans issued to commercial banks under reverse repurchase agreements represent short-term loans which are issued to commercial banks on a regular basis via the tender process.

The Group accepted securities on reverse repurchase agreements as collateral, which the Group is permitted to sell or repledge. As at 31 December 2018 amounts receivable under reverse repurchase agreements are with 10 resident bank (31 December 2017: 1 resident banks) and are collateralised by the following securities:

| *In thousands of Armenian Drams* | ***Fair value as at 31 December 2018*** | ***Fair value as at 31 December 2017*** |
|---|---|---|
| Treasury bonds of the Government | 151,182,668 | 38,342,781 |
| Eurobonds issued by the Government | 12,126,785 | – |
| Corporate bonds | 6,869,766 | – |
| **Total** | **170,179,219** | **38,342,781** |

## 12. Placements and investments with banks and other financial institutions (continued)

### Placements and investments with banks and other financial institutions in domestic currency (continued)

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks and other financial institutions under the following programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- *SME Support.* The objective of the SME support Programs of the World Bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2014 a new credit line was received within the framework of the ADB "Women Entrepreneurship Support Sector Development" Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs via the financial system of the Republic of Armenia. During 2015 a new loan was received from EIB, the loan will be used in order to make lending to SMEs in agro-processing, rural and tourism sectors through commercial banks and universal credit organisations. During 2017 one more loan was received from EIB within the framework of the "Armenia APEX II Loan for SMEs and MIDCAPs" Program. The conditions of this loan are mostly the same as that of the first phase. The main difference is climate change component inclusion that requires some actions from the side of sub-borrowers to improve the impact on the environment. During 2016 a new loan was received under "Support for the financing of the Energy Efficiency in MSME sector" Program. The objective of the Program is to introduce and expand the offer of energy efficiency loans in Armenian financial institutions and to cover at the same time the demand for energy efficiency loans from micro, small and medium sized enterprises (MSME). The Program aims at contributing to reduce the energy demand of Armenian MSME and the volume of CO2-emissions as well as to enhance the competitiveness of the enterprises.
- *Development of the Renewable Energies.* The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- *Development of sustainable housing market.* The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

In accordance with the conditions of the programs the Group appoints eligible Armenian banks and financial institutions using technical and finance criteria, and places funds with appointed banks and financial institutions according to contracts signed with these counterparties. The banks and financial institutions specify final borrowers and assume risks for the loans extended.

As at 31 December 2018 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 13 domestic banks (31 December 2017: 15 domestic banks) and 10 financial institutions (31 December 2017: 10 financial institutions).
Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2017: 10 years).

As at 31 December 2018 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 76,750,175 thousand (31 December 2017: AMD 70,575,287 thousand).

As at 31 December 2018 mortgage refinancing loans in the amount of AMD 580,842 thousand and term deposits denominated in domestic currency in the amount of AMD 30,000 thousand (31 December 2017: mortgage refinancing loans in amount of AMD 1,097,326 thousand and term deposits in amount of AMD 30,000 thousand) are pledged to secure the Group's borrowings from the Government (refer to Note 23) and bonds issued (refer to Note 24).

Current accounts and deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

As at 31 December 2018 the management of the Group has classified investments in the amount of AMD 24,090,275 thousand as investments measured at amortised cost (31 December 2017: AMD 23,925,036 thousand as loans and receivables). Such decision was made due to the absence of liquid market for these investments and taking into account that the Group has ability and intention to hold them for the foreseeable future.

Other loans are secured by real estate in the amount of AMD 2,815,891 thousand (31 December 2017: AMD 2,325,983 thousand), movable property and other assets in the amount of AMD 108,763 thousand (31 December 2017: AMD 134,844 thousand).

## 12. Placements and investments with banks and other financial institutions (continued)

### Placements and investments with banks and other financial institutions in domestic currency (continued)

**Allowance for impairment of placements and investments with banks and other financial institutions in domestic currency at amortised cost**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2018 is as follows:

| ***Placements and investments with banks and other financial institutions in domestic currency*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | 307,508,525 | **307,508,525** |
| New assets originated or purchased | 264,384,650 | **264,384,650** |
| Assets repaid | (125,443,831) | **(125,443,831)** |
| **At 31 December 2018** | **446,449,344** | **446,449,344** |

| ***Placements and investments with banks and other financial institutions in domestic currency*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **ECL as at 1 January 2018** | 2,678,727 | **2,678,727** |
| New assets originated or purchased | 819,297 | **819,297** |
| Assets repaid | (462,358) | **(462,358)** |
| Changes to models and inputs used for ECL calculations | (234,483) | **(234,483)** |
| **At 31 December 2018** | **2,801,183** | **2,801,183** |

## 13. Financial instruments at fair value through profit or loss

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Assets** | | |
| **Debt and other fixed-income instruments in foreign currency – quoted** | | |
| Foreign bonds under own management | 614,675,994 | 607,324,341 |
| Foreign bonds under trust management | 78,054,256 | 85,212,190 |
| Foreign money market instruments under own management | 12,130,223 | 14,524,124 |
| **Total financial instruments at fair value through profit or loss in foreign currency – quoted** | **704,860,473** | **707,060,655** |

As at 31 December 2018 and 31 December 2017 foreign securities at fair value under own management include:

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Government bonds | 346,945,790 | 331,702,996 |
| State agency bonds | 35,843,569 | 59,689,520 |
| Other securities | 231,886,635 | 215,931,825 |
| **Total** | **614,675,994** | **607,324,341** |

Debt securities at fair value through profit or loss under own management represent securities issued by governments of European countries and US treasury bills, securities issued by state agencies, foreign banks and other financial institutions.

As at 31 December 2018 and 31 December 2017 the foreign bonds under trust management include:

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Government bonds | 15,447,463 | 15,136,907 |
| State agency bonds | 5,403,404 | 22,369,775 |
| Other securities | 57,203,389 | 47,705,508 |
| **Total** | **78,054,256** | **85,212,190** |

Securities under trust management represent financial instruments under discretionary asset management by the international financial institution in accordance with Investment Management Agreement.

## 14. Derivative financial instruments

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Derivative financial assets** | | |
| Foreign currency swaps under own management | 29,911 | – |
| Forward contract with the Government | 13,938 | – |
| Foreign currency futures under trust management | – | 202,928 |
| **Total derivative financial assets** | **43,849** | **202,928** |
| **Derivative financial liabilities** | | |
| Foreign currency futures under trust management | 42,299 | – |
| Foreign currency futures under own management | 54,741 | |
| Forward contract with the Government | – | 13,184 |
| **Total derivative financial liabilities** | **97,040** | **13,184** |

As at 31 December 2018 the Group had 572 short futures contracts with the nominal value of EUR 78,912 thousand or AMD 43,689,507 thousand at the year-end official exchange rate of EUR to Armenian Dram, which were under discretionary asset management by the international financial institution for the purposes of regulating the interest rate risk. These operations were performed as a part of Investment Management Agreement (31 December 2017: 428 short futures contracts with the nominal value of EUR 57,577 thousand or AMD 33,400,648 thousand).

As at 31 December 2018 the Group had 97 short futures contracts with the nominal value of USD 54,600 thousand or AMD 26,412,750 thousand at the year-end official exchange rate of USD to Armenian Dram and 8 short futures contracts with the nominal value of EUR 800 thousand or AMD 442,920 thousand at the year-end official exchange rate of EUR to Armenian Dram, which were under own management.

| *In thousands of Armenian Drams* | ***Nominal value*** | | ***Fair value*** | | | |
|---|---|---|---|---|---|---|
| | | | ***2018*** | | ***2017*** | |
| | ***2018*** | ***2017*** | ***Asset*** | ***Liability*** | ***Asset*** | ***Liability*** |
| Foreign currency futures under trust management | 43,689,507 | 33,400,648 | – | 42,299 | 202,928 | – |
| Foreign currency futures under own management | 26,855,670 | – | – | 54,741 | – | – |
| Foreign currency swaps under own management | 5,336,320 | – | 29,911 | – | – | – |
| Currency forward contract with the Government | 3,173,020 | 2,871,048 | 13,938 | – | – | 13,184 |
| **Total** | **79,054,517** | **36,271,696** | **43,849** | **97,040** | **202,928** | **13,184** |

## 15. Investment securities

| *In thousands of Armenian Drams* | *31 December 2018* | *31 December 2017* |
|---|---|---|
| **Financial assets measured at fair value through other comprehensive income in foreign currency (previously classified as available-for-sale investments in foreign currency)** | | |
| **Equity investments – unquoted** | | |
| Foreign securities | 1,914,789 | 2,317,977 |
| SWIFT | 3,211 | 3,211 |
| **Total equity investments** | **1,918,000** | **2,321,188** |
| **Debt instruments** | | |
| Corporate bonds in foreign currency | 1,067,864 | – |
| **Total debt investments** | **1,067,864** | – |
| **Total financial assets measured at fair value through other comprehensive income in foreign currency (previously classified as total available-for-sale investments in foreign currency)** | **2,985,864** | **2,321,188** |
| **Financial assets measured at fair value through other comprehensive income in domestic currency (previously classified as available-for-sale investments in domestic currency)** | | |
| **Debt instruments** | | |
| Securities of the Government of the Republic of Armenia | 13,707,676 | 17,521,378 |
| Promissory note of the Government (Note 25) | 73,810,843 | 73,810,843 |
| **Total debt instruments** | **87,518,519** | **91,332,221** |
| **Equity investments** | | |
| Other investments | 762,005 | 706,823 |
| **Total equity investments** | **762,005** | **706,823** |
| **Total financial assets measured at fair value through other comprehensive income in domestic currency (previously classified as available-for-sale investments in domestic currency)** | **88,280,524** | **92,039,044** |
| **Total financial assets measured at fair value through other comprehensive income (previously classified as available-for-sale investments)** | **91,266,388** | **94,360,232** |
| **Held-to-maturity investments in foreign currency** | | |
| Foreign bonds | – | 32,089,943 |
| **Total held-to-maturity investments in foreign currency** | – | **32,089,943** |

Foreign equity securities classified as financial assets measured at fair value through other comprehensive income in foreign currency as at 31 December 2018 and available-for-sale as at 31 December 2017 represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

As at 31 December 2018 debt securities denominated in domestic currency and classified as financial assets measured at fair value through other comprehensive income in domestic currency (as at 31 December 2017 classified as available-for-sale assets) represent coupon securities issued by the Government of the Republic of Armenia. As at 31 December 2018 debt securities denominated in foreign currency and classified as financial assets measured at fair value through other comprehensive income in foreign currency represent coupon securities issued by one of Armenian banks.

Debt investment securities are recorded at fair value determined using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

As at 31 December 2018 a non-interest bearing on-demand promissory note issued by the Government is equal to AMD 73,810,843 thousand (2017: 73,810,843 AMD thousand). The management believes that the carrying amount of the promissory note approximates its fair value.

As at 31 December 2017 foreign securities classified as held to maturity include coupon and discount securities issued by state agencies, foreign banks and other financial institutions of European countries. As at 1 January 2018 foreign securities classified as held to maturity were reclassified to financial instruments at fair value through profit or loss as the Group changed its investment policy and started performing active management of securities previously included in Held-to-maturity category. Financial results of reclassification are presented in Note 2 (f) Effect of transition to IFRS 9. The reclassification of securities did not require the use of cash and cash equivalents and was excluded from the consolidated statement of cash flows.

## 15. Investment securities (continued)

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

| ***Debt securities at FVOCI in domestic currency - Securities of the Government of the Republic of Armenia*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | 17,521,378 | **17,521,378** |
| Assets repaid | (3,813,702) | **(3,813,702)** |
| **At 31 December 2018** | **13,707,676** | **13,707,676** |

| ***Debt securities at FVOCI in domestic currency - Securities of the Government of the Republic of Armenia*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **ECL as at 1 January 2018** | 66,446 | **66,446** |
| Assets repaid | (2,242) | **(2,242)** |
| Changes to models and inputs used for ECL calculations | (4,040) | **(4,040)** |
| **At 31 December 2018** | **60,164** | **60,164** |

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

| ***Debt securities at FVOCI in foreign currency*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | – | **–** |
| New assets originated or purchased | 1,067,864 | **1,067,864** |
| **At 31 December 2018** | **1,067,864** | **1,067,864** |

| ***Debt securities at FVOCI in foreign currency*** *(In thousands of Armenian Drams)* | ***Stage 1*** | ***Total*** |
|---|---|---|
| **ECL as at 1 January 2018** | – | **–** |
| New assets originated or purchased | 11,999 | **11,999** |
| **At 31 December 2018** | **11,999** | **11,999** |

## 16. Operations with the International Monetary Fund

### Assets due from the IMF

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Placements with the IMF** | | |
| Membership quota in the IMF (subscription) | 86,655,352 | 88,797,296 |
| SDR holdings in the IMF | 2,887,490 | 3,491,637 |
| Accrued interest | 5,655 | 7,196 |
| **Total placements with the IMF** | **89,548,497** | **92,296,129** |

The Republic of Armenia is a member of the International Monetary Fund. The Bank holds the quota for the Republic of Armenia membership in the IMF.

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The 75% of the quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Bank. As at 31 December 2018 the quota of the Republic of Armenia in the IMF amounted to SDR 128,800 thousand, or AMD 86,655,352 thousand at the year-end official exchange rate of Armenian Dram to SDR (2017: SDR 128,800 thousand or AMD 88,797,296 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

## 16. Operations with the International Monetary Fund (continued)

### Assets due from the IMF (continued)

Movements in SDR holdings account during the years ended 31 December 2018 and 31 December 2017 were as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Balance of SDR holdings as at 1 January** | **3,491,637** | **1,684,319** |
| Receipt of funds from the IMF under Extended Fund Facility program: | | |
| In favour of the Bank | – | 3,313,750 |
| Purchase of SDRs | 34,626,810 | 24,993,815 |
| Repayment of loans to the IMF: | | |
| On behalf of the Bank | | |
| PRGT | (2,867,948) | (1,287,858) |
| EFF | (15,701,960) | (13,440,048) |
| On behalf of the Government | | |
| PRGT | (13,831,234) | (9,839,699) |
| Payment of loan related commission | – | (59,550) |
| Other income | – | 7,606 |
| Other fees | (1,011) | (1,730) |
| Payment of interest for use of the IMF resources: | | |
| On behalf of the Bank | (2,201,503) | (1,745,407) |
| Payment of interest for use of funds received under SDR allocation | (526,439) | (261,425) |
| Income on SDR holdings | 19,568 | 7,010 |
| Translation differences | (120,430) | 120,854 |
| **Balance of SDR holdings as at 31 December** | **2,887,490** | **3,491,637** |

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions had place.

### Liabilities due to the IMF

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Securities account | 159,285,304 | 159,285,304 |
| Adjustment account for AMD liabilities to the IMF | (6,611,507) | 7,743,521 |
| Account 1 | 35,173,286 | 41,430,845 |
| Account 2 | 2,703 | 2,584 |
| SDR allocation | 59,197,890 | 60,661,141 |
| ECF: | 18,797,753 | 22,195,187 |
| *Carrying value* | *17,928,595* | *21,116,173* |
| *Deferred income* | *869,158* | *1,079,014* |
| Interest accrued | 477,671 | 433,562 |
| **Total liabilities due to the IMF** | **266,323,100** | **291,752,144** |

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2018 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 159,285,304 thousand (31 December 2017: AMD 159,285,304 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2018 represents liabilities as per Extended Credit Facility and Extended Fund Facility. Funds received under Extended Fund Facility are recorded on Account 1.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2018 the ECF bears no interest (2017: 0%). The loans outstanding as at 31 December 2018 mature in June 2019 – June 2023 (31 December 2017: May 2018 – June 2023).

## 16. Operations with the International Monetary Fund (continued)

### Liabilities due to the IMF (continued)

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2018 mature in March 2019 – June 2027 (31 December 2017: June 2018 – December 2027).

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations to the member countries. The SDR allocation interest rate is floating and published by the IMF on a weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

## 17. Property and equipment

| *In thousands of Armenian Drams* | ***Land and buildings*** | ***Networks, computer and other equipment*** | ***Vehicles*** | ***Construction in progress*** | ***Total*** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance as at 1 January 2017** | **72,888,130** | **22,353,894** | **674,316** | **2,946,879** | **98,863,219** |
| Additions | 71,863 | 877,660 | 27,000 | 1,345,567 | **2,322,090** |
| Disposals | (342,091) | (733,757) | (52,065) | – | **(1,127,913)** |
| Transfer | 2,150,934 | 259,397 | – | (2,410,331) | **–** |
| **Balance as at 31 December 2017** | **74,768,836** | **22,757,194** | **649,251** | **1,882,115** | **100,057,396** |
| Additions | 8,703 | 728,828 | 33,700 | 29,146 | **800,377** |
| Disposals | (1,030,936) | (424,987) | – | – | **(1,455,923)** |
| Transfer | 1,759,679 | 138,733 | – | (1,898,412) | **–** |
| **Balance as at 31 December 2018** | **75,506,282** | **23,199,768** | **682,951** | **12,849** | **99,401,850** |
| **Depreciation** | | | | | |
| **Balance as at 1 January 2017** | **11,361,206** | **11,557,676** | **437,156** | **–** | **23,356,038** |
| Charge for the period | 2,702,150 | 1,540,578 | 72,714 | **–** | **4,315,442** |
| Disposals | (183,710) | (479,037) | (48,117) | **–** | **(710,864)** |
| **Balance as at 31 December 2017** | **13,879,646** | **12,619,217** | **461,753** | **–** | **26,960,616** |
| Charge for the period | 2,712,586 | 1,400,991 | 53,818 | **–** | **4,167,395** |
| Disposals | (107,904) | (359,176) | – | **–** | **(467,080)** |
| Transfer | (35,821) | 35,821 | – | **–** | **–** |
| **Balance as at 31 December 2018** | **16,448,507** | **13,696,853** | **515,571** | **–** | **30,660,931** |
| **Carrying amount** | | | | | |
| **At 31 December 2018** | **59,057,775** | **9,502,915** | **167,380** | **12,849** | **68,740,919** |
| **At 31 December 2017** | **60,889,190** | **10,137,977** | **187,498** | **1,882,115** | **73,096,780** |

Construction in progress consists mainly of construction of premises. Upon completion, assets are transferred to premises and equipment respectively.

## 18. Intangible assets

| *In thousands of Armenian Drams* | ***Computer software*** | ***Contracts in progress*** | ***Total*** |
|---|---|---|---|
| **Cost** | | | |
| **Balance as at 1 January 2017** | **3,315,172** | **–** | **3,315,172** |
| Additions | 1,474,760 | 991,453 | **2,466,213** |
| Disposals | (654,317) | – | **(654,317)** |
| **Balance as at 31 December 2017** | **4,135,615** | **991,453** | **5,127,068** |
| Additions | 146,661 | 89,257 | **235,918** |
| Disposals | (11,075) | – | **(11,075)** |
| Transfer | 7,035 | (7,035) | **–** |
| **Balance as at 31 December 2018** | **4,278,236** | **1,073,675** | **5,351,911** |
| **Amortisation** | | | |
| **Balance as at 1 January 2017** | **1,733,090** | **–** | **1,733,090** |
| Charge for the period | 384,557 | – | **384,557** |
| Disposals | (27,689) | – | **(27,689)** |
| **Balance as at 31 December 2017** | **2,089,958** | **–** | **2,089,958** |
| Charge for the period | 481,732 | – | **481,732** |
| Disposals | (10,502) | – | **(10,502)** |
| **Balance as at 31 December 2018** | **2,561,188** | **–** | **2,561,188** |
| **Carrying amount** | | | |
| **At 31 December 2018** | **1,717,048** | **1,073,675** | **2,790,723** |
| **At 31 December 2017** | **2,045,657** | **991,453** | **3,037,110** |

## 19. Other assets in domestic currency

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Other non-financial assets | | |
| Numismatic coins | 7,872,280 | 7,970,378 |
| Prepayments | 3,503,722 | 2,593,973 |
| Other | 1,826,495 | 2,270,932 |
| Other financial assets | | |
| Receivables | 1,625,937 | 2,418,111 |
| Impairment allowance for other financial assets | (33,288) | – |
| **Total other assets** | **14,795,146** | **15,253,394** |

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

| ***Other financial assets*** | ***Stage 1*** | ***Total*** |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | **2,418,111** | **2,418,111** |
| New assets originated or purchased | 49,594 | **49,594** |
| Assets repaid | (841,768) | **(841,768)** |
| **At 31 December 2018** | **1,625,937** | **1,625,937** |

| ***Other financial assets*** | ***Stage 1*** | ***Total*** |
|---|---|---|
| **ECL as at 1 January 2018** | **50,194** | **50,194** |
| New assets originated or purchased | 165 | **165** |
| Assets repaid | (16,960) | **(16,960)** |
| Changes to models and inputs used for ECL calculations | (111) | **(111)** |
| **At 31 December 2018** | **33,288** | **33,288** |

## 20. Deposits and accounts of financial and other institutions

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Foreign currency liabilities** | | |
| Vostro accounts and deposits of domestic banks | 244,798,174 | 177,022,529 |
| Current accounts and term deposit of Deposit Guarantee Fund | 1,745,105 | 1,862,121 |
| Current accounts of other legal entities | 772,384 | 529,618 |
| **Total foreign currency liabilities** | **247,315,663** | **179,414,268** |
| **Domestic currency liabilities** | | |
| Vostro accounts and deposits of domestic banks | 364,466,344 | 381,265,657 |
| Current accounts and term deposit of Insurance Fund for servicemen | 46,873 | 1,196,390 |
| Current accounts and term deposit of Deposit Guarantee Fund | 2,997 | 2,151 |
| Current accounts of other legal entities | 674,295 | 1,024,175 |
| Other deposits | 2,002,678 | 2,002,678 |
| **Total domestic currency liabilities** | **367,193,187** | **385,491,051** |
| **Total deposits and accounts of financial and other institutions** | **614,508,850** | **564,905,319** |

### Concentration of deposits and accounts of financial and other institutions

As at 31 December 2018 three counterparty banks had balances, individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions, amounting to AMD 299,682,463 thousand (31 December 2017: two banks with total balance of AMD 144,659,126 thousand).

## 21. Other borrowed funds

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Due to the KfW | 63,695,678 | 62,758,218 |
| Due to the EIB | 54,856,643 | 56,539,446 |
| Due to the World Bank | 21,285,991 | 21,968,849 |
| Due to the ADB | 6,684,513 | 8,381,125 |
| Other | 5,187,927 | 5,933,983 |
| **Total other borrowed funds** | **151,710,752** | **155,581,621** |

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2019 to 2048 (31 December 2017: from 2018 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2019 to 2035 (31 December 2017: from 2018 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions and matures during the period from 2019 to 2044 (31 December 2017: from 2018 to 2044).

The loan due to the EIB is provided by the European Investment Bank for financing agriculture and tourism sectors through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2019 to 2030 (31 December 2017: from 2018 to 2030).

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2019 till 2025 (31 December 2017: from 2018 to 2025). As at 31 December 2018 the balance outstanding under this loan facility is AMD 5,187,927 thousand (31 December 2017: AMD 5,933,983 thousand).

## 22. Other liabilities in domestic currency

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Other liabilities in domestic currency** | | |
| Payables | 2,386,248 | 2,072,744 |
| Demand deposits of employees | 1,137,386 | 932,825 |
| Other liabilities | 979,786 | 1,643,256 |
| **Total other liabilities in domestic currency** | **4,503,420** | **4,648,825** |

## 23. Due to the Government of the Republic of Armenia

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| **Foreign currency liabilities** | | |
| Current accounts of the Government | 5,822,025 | 1,242,391 |
| **Total foreign currency liabilities** | **5,822,025** | **1,242,391** |
| **Domestic currency liabilities** | | |
| Term deposits | 135,487,725 | 115,325,158 |
| Current accounts of the Government | 49,117,388 | 45,210,833 |
| Loans from the Government | 321,865 | 965,468 |
| **Total domestic currency liabilities** | **184,926,978** | **161,501,459** |
| **Total due to the Government of the Republic of Armenia** | **190,749,003** | **162,743,850** |

Term deposits of the Government have maturity of less than one year and interest rate is ranging from 5.59% to 5.91% (31 December 2017: from 5.25% to 5.63%).

Loans from the Government outstanding as at 31 December 2018 and 31 December 2017 represent loans obtained by one of the Group's subsidiaries from the Government under the Mortgage Loan Market Refinancing Project based on the general agreement signed on 13 June 2009. Loan's nominal interest rate is 7% per annum with maturity date till June 2019.

As at 31 December 2018 mortgage refinancing loans to banks and financial institutions with a gross value of AMD 580,842 thousand (31 December 2017: AMD 1,097,326 thousand) serve as collateral for loans from the Government.

## 24. Debt securities issued

At 31 December 2018 the subsidiary company of the Group had in issue five-year coupon bonds at AMD 1,200,000 thousand par value (maturing up to June 2019), three-year coupon bonds at AMD 1,384,000 thousand par value (maturing up to November 2019), three-year coupon bonds at AMD 2,126,600 thousand par value (maturing up to November 2019), three-year coupon bonds at AMD 3,000,000 thousand par value (maturing up to February 2021) (31 December 2017: five-year coupon bonds at AMD 1,200,000 thousand par value, three-year coupon bonds at AMD 3,510,600 thousand par value).

The average annual yield on these bonds is from 8.1% to 11.8% (31 December 2017: from 10.4% to 11.8%). The carrying value of the issued bonds as at 31 December 2018 is AMD 7,838,688 thousand (31 December 2017: AMD 4,751,824 thousand). As at 31 December 2018 term deposits denominated in domestic currency in the amount of AMD 30,000 thousand (31 December 2017: mortgage refinancing loans to banks and financial institutions in the amount of AMD 30,000 thousand) and term deposits denominated in foreign currency in the amount of AMD 1,451,250 thousand (31 December 2017: AMD 1,452,300 thousand denominated in foreign currency) serve as collateral for debt securities issued.

## 25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

No external capital requirements exist for the Bank as the central bank, except for the size of the authorised (statutory) capital stipulated by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential losses) arising as a result of banking operations. Promissory Note issued by the Government represents a contribution made by the Government by the way of issuing a non-interest bearing on demand promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Group exceed the aggregate amount of its reserves.

## 25. Management of capital (continued)

As at 31 December 2018 a non-interest bearing on-demand promissory note issued by the Government is equal to AMD 73,810,843 thousand. During the year ended 31 December 2018 no any allocation of profit was performed.

Revaluation reserve for financial assets measured at fair value through other comprehensive income in the amount of AMD 1,838,897 thousand (positive effect) as at 31 December 2018 (31 December 2017: AMD 1,903,879 thousand (positive effect) represents difference between the fair value of the Group's financial assets measured at fair value through other comprehensive income (previously classified as available-for-sale) as at the reporting date and their fair value at initial recognition.

## 26. Commitments

### Capital commitments

The capital commitments outstanding at 31 December 2018 related to the construction of the Group's premises and development of software are AMD 338,420 thousand (31 December 2017: AMD 321,238 thousand).

### Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Group.

### Guarantees

As at 31 December 2017 the Group had guarantees in the amount of AMD 746,272 thousand issued from 1994 to 1995 on behalf of construction companies and related to earthquake zone construction. Guarantees represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk. During the period starting from the date of the issuance of the guarantees and till 31 December 2017 the Group has not made any payments and has not received any claims under these guarantees). As at 31 December 2018 those guarantees were expired.

## 27. Related party transactions

### Transactions with members of the key management

Amount of the key management remuneration included into "Employee compensation, staff training and related payments" line (refer to Note 11):

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| Key management including the Board members | 329,949 | 311,599 |
| **Total** | **329,949** | **311,599** |

Total amount of loans issued to the members of the key management outstanding as at 31 December 2018 is AMD 183,833 thousand (31 December 2017: AMD 115,372 thousand). Total amount of loans issued to and repaid by the members of the key management during the year ended 31 December 2018 is AMD 94,820 thousand and AMD 26,359 thousand respectively (2017: AMD 26,500 thousand and AMD 28,961 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2018 is AMD 261,940 thousand (31 December 2017: AMD 206,139 thousand). Total amount of deposits placed and deposits redeemed by the members of the key management during the year ended 31 December 2018 is AMD 96,390 thousand and AMD 40,589 thousand respectively (2017: AMD 100,262 thousand and AMD 22,527 thousand). In accordance with the Bank's internal regulations, loans cannot be provided to the Bank's employees who have deposits with the Bank.

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the key management are as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Consolidated statement of comprehensive income** | | |
| Interest expense | (29,216) | (20,537) |
| Interest income | 4,513 | 3,772 |

## 27. Related party transactions (continued)

### Transactions with the Government of the Republic of Armenia

The outstanding balances and average contractual interest rates with the Government are as follows:

| | *31 December 2018* | | *31 December 2017* | |
|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Balance outstanding*** | ***Average contractual interest rate*** | ***Balance outstanding*** | ***Average contractual interest rate*** |
| **Consolidated statement of financial position** | | | | |
| **Assets** | | | | |
| Securities of the Republic of Armenia classified as financial assets measured at fair value through other comprehensive income | 13,707,676 | 11.0% | – | 0.0% |
| Securities of the Republic of Armenia classified as available-for-sale (Note 15) | – | 0.0% | 17,521,378 | 10.9% |
| | **13,707,676** | | **17,521,378** | |
| **Promissory note issued by the Government (Note 15)** | | | | |
| **Balance at 1 January** | **73,810,843** | | **73,810,843** | |
| Decrease as a result of profit distribution | – | | – | |
| **Balance at 31 December** | **73,810,843** | | **73,810,843** | |
| **Assets at 31 December** | **87,518,519** | | **91,332,221** | |
| **Liabilities** | | | | |
| Due to the Government of the Republic of Armenia (domestic currency, Note 23) | 184,926,978 | 4.5% | 161,501,459 | 4.3% |
| Due to the Government of the Republic of Armenia (foreign currency, Note 23) | 5,822,025 | | 1,242,391 | |
| **Liabilities at 31 December** | **190,749,003** | | **162,743,850** | |

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Balance at 1 January** | **115,325,158** | **135,211,272** |
| Additions | 883,000,000 | 804,000,000 |
| Interest charge | 7,282,632 | 5,868,829 |
| Redemption (including interest payment) | (870,120,065) | (829,754,943) |
| **Balance at 31 December** | **135,487,725** | **115,325,158** |

The movement of the loans from the Government in domestic currency was as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Balance at 1 January** | **965,468** | **1,609,773** |
| Interest charge | 46,067 | 98,431 |
| Redemption (including interest payments) | (689,670) | (742,736) |
| **Balance at 31 December** | **321,865** | **965,468** |

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the Government are as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Consolidated statement of comprehensive income** | | |
| Interest income from Government securities | 1,458,881 | 2,398,426 |
| Interest expense | (8,049,811) | (6,397,728) |
| Net foreign exchange gain/(loss) | 68,796 | (8,082) |
| Net gain/(loss) on derivatives | 552,850 | (473,190) |

In accordance with the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law *On the State Budget of the Republic of Armenia*. Gain or loss of the Group as a result of such foreign currency exchange operations is accounted for as result on derivatives.

## 27. Related party transactions (continued)

### Transactions with the Deposit Guarantee Fund

The information in the tables below relates to the balances and results of transactions with the Deposit Guarantee Fund of Armenia, in the governing body of which the Bank has its representatives.

| | *31 December 2018* | | *31 December 2017* | |
|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Balance outstanding*** | ***Average contractual interest rate*** | ***Balance outstanding*** | ***Average contractual interest rate*** |
| **Consolidated statement of financial position** | | | | |
| **Liabilities** | | | | |
| Due to the Deposit Guarantee Fund (domestic currency, Note 20) | 2,997 | 0.0% | 2,151 | 0.0% |
| Due to the Deposit Guarantee Fund (foreign currency, Note 20) | 1,745,105 | 0.0% | 1,862,121 | 0.0% |
| **Total** | **1,748,102** | | **1,864,272** | |

The movement of deposits and current accounts of the Deposit Guarantee Fund was as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Balance at 1 January** | **1,864,272** | **1,719,265** |
| Additions | 40,654,805 | 27,658,285 |
| Interest charge | 6,871 | 4,283 |
| Redemption (including interest payment) | (40,777,846) | (27,517,561) |
| **Balance at 31 December** | **1,748,102** | **1,864,272** |

### Transactions with the Insurance Fund for Servicemen

The information in the tables below relates to the balances and results of transactions with the Insurance Fund for Servicemen, in the governing body of which the Bank has its representatives.

| | *31 December 2018* | | *31 December 2017* | |
|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Balance outstanding*** | ***Average contractual interest rate*** | ***Balance outstanding*** | ***Average contractual interest rate*** |
| **Consolidated statement of financial position** | | | | |
| **Liabilities** | | | | |
| Due to the Insurance Fund for Servicemen (domestic currency, Note 20) | 46,873 | 6.0% | 1,196,390 | 6.0% |
| **Total** | **46,873** | | **1,196,390** | |

The movement of deposits and current accounts of the Insurance Fund for Servicemen was as follows:

| *In thousands of Armenian Drams* | ***2018*** | ***2017*** |
|---|---|---|
| **Balance at 1 January** | **1,196,390** | **–** |
| Additions | 200,871,547 | 1,195,800 |
| Interest charge | 47,684 | 83,373 |
| Redemption (including interest payment) | (202,068,748) | (82,783) |
| **Balance at 31 December** | **46,873** | **1,196,390** |

## 28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

| *In thousands of Armenian Drams* | ***31 December 2018*** | ***31 December 2017*** |
|---|---|---|
| Cash | 42,238,172 | 45,575,878 |
| Nostro accounts (Note 12) | 310,841,888 | 287,195,009 |
| SDR holdings in the IMF (Note 16) | 2,887,490 | 3,491,637 |
| **Total cash and cash equivalents** | **355,967,550** | **336,262,524** |

## 29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### (a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

| | ***31 December 2018*** | | | | ***31 December 2017*** | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
| **Assets carried at fair value** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| ***Financial instruments at fair value through profit or loss*** | | | | | | | | |
| Government bonds | 362,393,253 | – | – | **362,393,253** | 346,839,903 | – | – | **346,839,903** |
| State agency bonds | 41,246,973 | – | – | **41,246,973** | 82,059,295 | – | – | **82,059,295** |
| Other securities | 289,090,024 | – | – | **289,090,024** | 263,637,333 | – | – | **263,637,333** |
| Money market instruments | 12,130,223 | – | – | **12,130,223** | 14,524,124 | – | – | **14,524,124** |
| ***Derivative financial assets*** | – | – | 43,849 | **43,849** | 202,928 | – | – | **202,928** |
| ***Investment securities measured at fair value through other comprehensive income (previously classified as Investment securities available for sale)*** | | | | | | | | |
| Foreign securities | – | 1,914,789 | – | **1,914,789** | – | 2,317,977 | – | **2,317,977** |
| Securities of the Government of the Republic of Armenia | – | 13,707,676 | – | **13,707,676** | – | 17,521,378 | – | **17,521,378** |
| Promissory note issued by the Government | – | 73,810,843 | – | **73,810,843** | – | 73,810,843 | – | **73,810,843** |
| Corporate bonds in foreign currency | – | 1,067,864 | – | **1,067,864** | – | – | – | – |
| **Total assets with recurring fair value measurements** | **704,860,473** | **90,501,172** | **43,849** | **795,405,494** | **707,263,583** | **93,650,198** | – | **800,913,781** |

## 29. Fair value of financial instruments (continued)

### (a) Recurring fair value measurements (continued)

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Level 1*** | ***Level 3*** | ***Total*** | ***Level 1*** | ***Level 3*** | ***Total*** |
| **Liabilities carried at fair value** | | | | | | |
| **Financial liabilities** | | | | | | |
| Foreign currency futures under trust management | 42,299 | – | **42,299** | – | – | **–** |
| Foreign currency futures under own management | 54,741 | – | **54,741** | – | – | **–** |
| Forward contract with the Government | – | – | | – | 13,184 | **13,184** |
| **Total liabilities with recurring fair value measurements** | **97,040** | **–** | **97,040** | **–** | **13,184** | **13,184** |

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2018:

| *In thousands of Armenian Drams* | ***Fair value*** | ***Valuation technique*** | ***Inputs used*** |
|---|---|---|---|
| **Assets carried at fair value** | | | |
| **Financial assets** | | | |
| **Investment securities measured at fair value through other comprehensive income** | | | |
| Foreign securities | 1,914,789 | DCF | EUR risk-free rate |
| Corporate bonds in foreign currency | 1,067,864 | DCF | Quoted prices |
| Securities of the Government of the Republic of Armenia | 13,707,676 | DCF | Government bonds yield curve |
| Promissory note issued by the Government | 73,810,843 | DCF | Government bonds yield curve |
| **Total recurring fair value measurements at Level 2** | **90,501,172** | | |

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017:

| *In thousands of Armenian Drams* | ***Fair value*** | ***Valuation technique*** | ***Inputs used*** |
|---|---|---|---|
| **Assets carried at fair value** | | | |
| **Financial assets** | | | |
| ***Investment securities available for sale*** | | | |
| Foreign securities | 2,317,977 | DCF | EUR risk-free rate |
| Securities of the Government of the Republic of Armenia | 17,521,378 | DCF | Government bonds yield curve |
| Promissory note issued by the Government | 73,810,843 | DCF | Government bonds yield curve |
| **Total recurring fair value measurements at Level 2** | **93,650,198** | | |

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018:

| *In thousands of Armenian Drams* | ***Fair value*** | ***Valuation technique*** | ***Inputs used*** | ***Range of inputs (weighted average)*** | ***Reasonable change*** | ***Sensitivity of fair value measurement*** |
|---|---|---|---|---|---|---|
| **Assets carried at fair value** | | | | | | |
| **Financial assets** | | | | | | |
| Derivative financial assets | 13,938 | DCF | 1) AMD risk-free rate | 1) 5.99% | 1) +100/-80 b.p. | 1) (2,532)/2,044 |
| | | | 2) USD risk-free rate | 2) 4.46% | 2) +50/-15 b.p. | 2) 1,259/(379) |
| | | | 3) EUR risk-free rate | 3) 1.59% | 3) + 20/-1 b.p. | 3) 9/(0.4) |
| | | | 4) USD/AMD spot rate at the year-end | 4) 483.75 | 4) n/a | 4) n/a |
| | | | 5) EUR/AMD spot rate at the year-end | 5) 553.65 | 5) n/a | 5) n/a |
| | | | 6) Expected net amount of external debt – USD | 6) USD 6,445 thousand | 6) ± 10% | 6) (1,414)/1,414 |
| | | | 7) Expected net amount of external debt – EUR | 7) EUR 100 thousand | 7) ± 10% | 7) (20)/20 |

## 29. Fair value of financial instruments (continued)

### (a) Recurring fair value measurements (continued)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2017:

| | | | | | | |
|---|---|---|---|---|---|---|
| **Liabilities carried at fair value** | | | | | | |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | 13,184 | DCF | 1) AMD risk-free rate<br>2) USD risk-free rate<br>3) EUR risk-free rate<br>4) USD/AMD spot rate at the year-end<br>5) EUR/AMD spot rate at the year-end<br>6) Expected net amount of external debt – USD<br>7) Expected net amount of external debt – EUR | 1) 5.63%<br>2) 3.36%<br>3) 1.43%<br>4) 484.10<br>5) 580.10<br>6) USD 5,811 thousand<br>7) EUR 100 thousand | 1) +160/-350 b.p.<br>2) +70/-8 b.p.<br>3) + 25/-1 b.p.<br>4) n/a<br>5) n/a<br>6) ± 10%<br>7) ± 10% | 1) (3,636)/8,167<br>2) 1,608/(184)<br>3) 12/(0.4)<br>4) n/a<br>5) n/a<br>6) (1,119)/1,119<br>7) (200)/200 |

The above tables disclose sensitivity to valuation inputs for derivative financial liabilities and derivative financial assets, if changing one or more of the unobservable inputs to reflect whether reasonably possible alternative assumptions would change fair value significantly. The sensitivity of fair value measurement disclosed in the above tables shows the direction that an increase or decrease in the respective input variables would have on the valuation result.

### (b) Valuation processes for recurring level 3 fair value measurements

Level 3 valuations are periodically reviewed by the Accounting and Finance Departments of the Bank with making decision in respect of the appropriateness of the valuation technique which is used and analysis of the valuation model inputs. The level three instruments are valued at the net present value of estimated future cash flows using discount factors determined based on the characteristics of each individual financial instrument. When appropriate, the back testing is performed by the Group.

### (c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of financial assets not measured at fair value are as follows:

| *In thousands of Armenian Drams* | ***31 December 2018*** | | | | ***31 December 2017*** | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Carrying value*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Carrying value*** |
| **Financial assets** | | | | | | | | |
| ***Placements with banks and other financial institutions in foreign currency*** | | | | | | | | |
| Nostro accounts | – | 310,841,888 | – | 310,841,261 | – | 287,195,009 | – | 287,195,009 |
| Term deposits | – | 31,604,817 | – | 31,479,341 | – | 33,757,440 | – | 33,603,980 |
| Cash included in assets under trust management | – | 5,689,324 | – | 5,689,324 | – | 3,118,396 | – | 3,118,396 |
| Margin requirements of interest rate futures | | 56,931 | | 56,931 | | – | | – |
| Repurchase agreements | – | – | – | – | – | 14,533,961 | – | 14,533,961 |
| ***Placements and investments with banks and other financial institutions in domestic currency*** | | | | | | | | |
| Repurchase agreements and other overnight facilities | – | 163,433,113 | – | 163,433,113 | – | 36,918,863 | – | 36,918,863 |
| Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank | – | 126,846,911 | – | 125,409,306 | – | 123,846,060 | – | 122,810,147 |
| Mortgage refinancing | – | 73,037,990 | – | 76,542,692 | – | 67,704,479 | – | 70,673,468 |
| Deposits and current accounts placed in commercial banks | – | 50,778,773 | – | 50,708,941 | – | 49,744,423 | – | 49,852,349 |
| Investments measured at amortised cost | – | – | 21,550,404 | 23,974,987 | – | – | 20,102,861 | 23,925,036 |
| Other loans | – | 3,374,976 | – | 3,579,122 | – | 3,131,405 | – | 3,328,662 |
| ***Investment securities held to maturity*** | | | | | | | | |
| Government bonds | – | – | – | – | 4,565,264 | – | – | 4,566,164 |
| State agency bonds | – | – | – | – | 10,663,568 | – | – | 10,749,711 |
| Other securities | – | – | – | – | 16,732,246 | – | – | 16,774,068 |
| **Total** | **–** | **765,664,723** | **21,550,404** | **791,715,018** | **31,961,078** | **619,950,036** | **20,102,861** | **678,049,814** |

## 29. Fair value of financial instruments (continued)

### (c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

The management believes that the carrying amount of deposits and accounts of financial and other institutions in foreign currency and in domestic currency, amounts due to the IMF and other borrowed funds approximates their fair value. The fair value hierarchy for these financial liabilities is Level 2.

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial liabilities not measured at fair value are as follows:

| | *31 December 2018* | | *31 December 2017* | |
|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Level 2*** | ***Carrying value*** | ***Level 2*** | ***Carrying value*** |
| **Financial liabilities** | | | | |
| ***Due to the Government of the Republic of Armenia*** | | | | |
| ***Foreign currency liabilities*** | | | | |
| Current accounts of the Government | 5,822,025 | **5,822,025** | 1,242,391 | **1,242,391** |
| ***Domestic currency liabilities*** | | | | |
| Current accounts of the Government | 49,117,388 | **49,117,388** | 45,210,833 | **45,210,833** |
| Term deposits | 135,463,400 | **135,487,725** | 115,310,788 | **115,325,158** |
| Loans from the Government | 321,865 | **321,865** | 965,468 | **965,468** |
| Debt securities issued | 8,006,693 | **7,838,688** | 5,018,023 | **4,751,824** |
| **Total** | **198,731,371** | **198,587,691** | **167,747,503** | **167,495,674** |

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

## 30. Risk management

### Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group to be able to perform its main functions and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

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

### The Board

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

### Institutional framework

International reserves of the Republic of Armenia are the Bank's claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Group. The Bank manages the reserves in accordance with the principles envisaged by the article 52 of the Law, by investing the reserves within the Investment framework set by the Board.

The reserves can be used to finance external payments/trade imbalances, to regulate indirectly the impact of such imbalances on the exchange rate, and to ensure the international obligations of Armenia are duly performed. The Bank uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

## 30. Risk management (continued)

### Institutional framework (continued)

Starting from 2007 the Bank has established a new reserve management framework in compliance with best international practices. The Bank adopted a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

### Administration and control

According to the Bank's structure, the Financial Department is responsible for Armenia's international reserves management. The Foreign Markets Operations unit of the Financial Department is in charge of operations related to day-to-day management of reserves. The International Risk Management unit is responsible for risks assessment, provides support for development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Issues related to reserves management are discussed on a monthly basis by the Investment Committee of the Bank, which includes the heads of all structural units involved in the entire process of reserves management, as well as the Bank's Chairman and the Deputy Chairmen. The Financial Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and the National Assembly, and makes that information publicly available.

### Asset allocation and risk management

According to the principles set forth in article 52 of the Law, Armenia's international reserves are managed based on the principle of adequate liquidity and security of reserves while ensuring of profit maximisation. For this purpose, the Financial Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

### Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Group evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

To monitor the credit risk the Group uses an in-house developed model, which allows assessing the issuer default probability based on stock prices and balance sheet data. It belongs to the class of structural models, providing an economically meaningful explanation of default based on the asset-liability structure and financial leverage. The model is based on the barrier option price equation which is one of components of implied rating issued by FITCH. Ratings and model results are used to build a matrix of investment limits for each rating group, maturity, individual counterparties, and asset classes. The matrix is the main tool for the credit risk management.

### Derivative financial instruments

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

### Maximum credit risk without collateral or other credit enhancement

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

## 30. Risk management (continued)

### Maximum credit risk without collateral or other credit enhancement (continued)

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

### Credit quality per class of financial assets

Financial assets of the Group, except equity investments are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

| | | *31 December 2018* | | *31 December 2017* | |
|---|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Credit rating*** | ***Amount*** | ***% in financial assets*** | ***Amount*** | ***% in financial assets*** |
| **Financial assets – neither past due nor impaired** | | | | | |
| ***Placements with banks and other financial institutions in foreign currency*** | | | | | |
| Nostro accounts | P-1 | 309,503,541 | 89.0 | 286,106,719 | 84.5 |
| | P-3 | 745,740 | 0.2 | – | 0.0 |
| | Unrated | 582,610 | 0.1 | 1,065,540 | 0.3 |
| | NP | 9,997 | 0.0 | 22,750 | 0.0 |
| Term deposits | P-1 | 26,713,063 | 7.6 | 27,355,880 | 8.1 |
| | Unrated | 2,422,901 | 0.7 | 6,248,100 | 1.9 |
| | NP | 2,428,027 | 0.7 | – | 0.0 |
| Repurchase agreements | P-1 | – | 0.0 | 14,533,961 | 4.3 |
| Cash included in the assets under trust management and margin requirement of interest rate futures | P-1 | 5,746,255 | 1.7 | 3,118,396 | 0.9 |
| Impairment allowance | | (85,277) | | – | |
| **Total placements with banks and other financial institutions in foreign currency** | | **348,066,857** | **100.0** | **338,451,346** | **100.0** |
| ***Financial instruments at fair value through profit and loss*** | | | | | |
| Government bonds | Aaa | 339,271,806 | 48.1 | 322,084,178 | 45.6 |
| | Aa1-Aa3 | 23,121,447 | 3.3 | 24,755,725 | 3.5 |
| State agency bonds and other securities | Aaa | 23,291,590 | 3.3 | 42,460,098 | 6.0 |
| | Aa1-Aa3 | 17,955,383 | 2.5 | 34,739,284 | 4.9 |
| | A1-A3 | – | 0.0 | 4,859,913 | 0.7 |
| Other securities | Aaa | 244,997,616 | 34.8 | 207,512,790 | 29.3 |
| | Aa1-Aa3 | 43,462,831 | 6.2 | 56,124,543 | 7.9 |
| | Aa1 | 629,577 | 0.1 | – | – |
| Money market instruments | Unrated | 12,130,223 | 1.7 | 14,524,124 | 2.1 |
| **Total financial instruments at fair value through profit and loss** | | **704,860,473** | **100.0** | **707,060,655** | **100.0** |
| ***Financial assets measured at fair value through other comprehensive income, (previously classified as available-for-sale assets), excluding equity investments*** | | | | | |
| Securities of the Government of the Republic of Armenia | Ba2 | 13,707,676 | 15.5 | 17,521,378 | 19.2 |
| Promissory note issued by the Government | Ba2 | 73,810,843 | 83.3 | 73,810,843 | 80.8 |
| Corporate bonds in foreign currency | Unrated | 1,067,864 | 1.2 | – | 0.0 |
| ***Total financial assets measured at fair value through other comprehensive income, excluding equity investments*** **(*Previously classified as* total available-for-sale assets, excluding equity investments)** | | **88,586,383** | **100.0** | **91,332,221** | **100.0** |
| ***Held to maturity assets*** | | | | | |
| Government securities | Aa1-Aa3 | – | – | 4,566,163 | 14.2 |
| | Aa1-Aa2 | – | – | 10,749,712 | 33.5 |
| Other securities | Aaa | – | – | 16,774,068 | 52.3 |
| **Total held to maturity assets** | | **–** | **–** | **32,089,943** | **100.0** |

## 30. Risk management (continued)

### Credit quality per class of financial assets (continued)

As at 31 December 2018 current accounts and term deposits included in the unrated credit rating category amounting to AMD 166,690 thousand and AMD 2,422,901 thousand respectively (31 December 2017: AMD 551,368 and 6,248,100 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

As at 31 December 2018 money market instruments included in the unrated credit category amounting to AMD 12,130,223 thousand represent securities issued by the Bank for International Settlements and are considered to have low credit risk (31 December 2017: AMD 14,524,124 thousand).

| | | *31 December 2018* | | *31 December 2017* | |
|---|---|---|---|---|---|
| *In thousands of Armenian Drams* | ***Credit rating*** | ***Amount*** | ***% in financial assets*** | ***Amount*** | ***% in financial assets*** |
| ***Placements and investments with banks and other financial institutions in domestic currency*** | | | | | |
| Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank | Settled after the end of the reporting period | 5,680,274 | 4.4 | 6,448,926 | 5.3 |
| | Not due at the date of authorisation of the consolidated financial statements for issue | 122,157,277 | 95.6 | 116,361,221 | 94.7 |
| **Total** | | **127,837,551** | **100.0** | **122,810,147** | **100.0** |
| Mortgage refinancing | Settled after the end of the reporting period | 3,807,115 | 5.0 | 3,526,397 | 5.0 |
| | Not due at the date of authorisation of the consolidated financial statements for issue | 72,759,544 | 95.0 | 67,147,071 | 95.0 |
| **Total** | | **76,566,659** | **100.0** | **70,673,468** | **100.0** |
| Deposits and current accounts in commercial banks | Settled after the end of the reporting period | 12,950,261 | 25.4 | 11,167,490 | 22.4 |
| | Not due at the date of authorisation of the consolidated financial statements for issue | 37,992,189 | 74.6 | 38,684,859 | 77.6 |
| **Total** | | **50,942,450** | **100.0** | **49,852,349** | **100.0** |
| Repurchase agreements and other overnight facilities | Settled after the end of the reporting period | 163,433,113 | 100.0 | 36,918,863 | 100.0 |
| **Total** | | **163,433,113** | **100.0** | **36,918,863** | **100.0** |
| Investments measured at amortised cost | Settled after the end of the reporting period | 583,173 | 2.4 | 580,036 | 2.4 |
| | Not due at the date of authorisation of the consolidated financial statements for issue | 23,507,102 | 97.6 | 23,345,000 | 97.6 |
| **Total** | | **24,090,275** | **100.0** | **23,925,036** | **100.0** |
| Other loans | | 3,579,296 | 100.0 | 3,328,662 | 100.0 |
| **Total** | | **3,579,296** | **100.0** | **3,328,662** | **100.0** |
| **Impairment allowance** | | **(2,801,183)** | | **–** | |
| **Total placements and investments with banks and other financial institutions in domestic currency** | | **443,648,161** | **–** | **307,508,525** | **–** |

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

### Impairment assessment

Before 1 January 2018 the main considerations for the financial assets impairment assessment included whether any payments of principal or interest were overdue more than 30 days or there were any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addressed impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

## 30. Risk management (continued)

### Impairment assessment (continued)

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

| | |
|---|---|
| PD | The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. |
| EAD | The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. |
| LGD | The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. |

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

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

| | |
|---|---|
| Stage 1: | When assets are first recognized, the Group recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 2. |
| Stage 2: | When an asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3. |
| Stage 3: | Assets considered credit-impaired. The Group records an allowance for the LTECL. |
| POCI: | Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses. |

*Definition of default and cure*

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when the counterparty's rating downgrades lower than the rating predefined by the Group. Regardless of the change in credit grades in all cases when the borrower becomes 90 days past due on its contractual payments, financial instrument is considered as defaulted.

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

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Group;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

## 30. Risk management (continued)

### Impairment assessment (continued)

*Definition of default and cure (continued)*

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

*PD estimation process*

For the counterparties that have ratings assigned by the international rating agencies Annual Transition Matrix of Moody's rating company is used.

For the counterparties that do not have ratings assigned by the international rating agencies the probability of default is assessed based on internal Financial Stability Index using extrapolation of rated counterparties' probability of default.

*Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation.

*Loss given default*

For each group of financial assets the recovery rates corresponding to the debt seniority status of respective financial instruments (Moodys') or recovery rates of the country of domicile (IMF) are used to calculate the LGD rate.

*Significant increase in credit risk*

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the counterparty's credit rating has changed since initial recognition pursuant to the internal principles of risk management.

The assessment of significant increase in credit risk for exposures of local commercial banks and financial institutions, with no international credit ratings, is based on performance of individual exposure and overall financial stability index of commercial banks and financial institutions. Macro prudential analysis on systemic risk dimensions consist another tool to consider the feasibility to reclassify certain asset from Stage 1 to Stage 2.

Regardless of the change in credit grades the credit risk is deemed to have increased significantly since initial recognition if contractual payments are more than 30 days past due.

*Forward-looking information and multiple economic scenarios*

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

- GDP growth;
- Unemployment rates;
- CPI;
- International reserves;
- Monetary policy rate;
- Equity Index Price;
- Foreign exchange rates
- Credit/GDP ratio;
- Other macroeconomic factors depending on the specificities of each country.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

## 30. Risk management (continued)

### Offsetting financial assets and financial liabilities

As at 31 December 2018 the Group had reverse repurchase contracts with commercial banks which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions. The trust manager may set off the Group's liabilities with the margin deposit in case of default.

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements (ISDA, RISDA, etc.) that do not result in an offset in the consolidated statement of financial position:

| *In thousands of Armenian Drams* | ***Gross amount of recognized financial assets*** | ***Gross amount of recognized financial liabilities set off in the statement of financial position*** | ***Net amount of financial assets presented in the statement of financial position*** | ***Related amounts not set off in the statement of financial position*** | |
|---|---|---|---|---|---|
| | | | | ***Financial instruments*** | ***Net amount*** |
| **31 December 2018** | | | | | |
| ***Financial assets*** | | | | | |
| Repurchase agreements and other overnight facilities | 163,433,113 | – | 163,433,113 | 163,433,113 | **–** |
| **Total** | **163,433,113** | **–** | **163,433,113** | **163,433,113** | **–** |

| *In thousands of Armenian Drams* | ***Gross amount of recognized financial assets*** | ***Gross amount of recognized financial liabilities set off in the statement of financial position*** | ***Net amount of financial assets presented in the statement of financial position*** | ***Related amounts not set off in the statement of financial position*** | |
|---|---|---|---|---|---|
| | | | | ***Financial instruments*** | ***Net amount*** |
| **31 December 2017** | | | | | |
| ***Financial assets*** | | | | | |
| Repurchase agreements and other overnight facilities | 51,452,824 | – | 51,452,824 | 51,452,824 | **–** |
| **Total** | **51,452,824** | **–** | **51,452,824** | **51,452,824** | **–** |

## 30. Risk management (continued)

The geographical concentration of the Group's assets and liabilities is set out below:

| *In thousands of Armenian Drams* | *31 December 2018* | | | | *31 December 2017* | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Armenia*** | ***OECD*** | ***CIS and other foreign banks*** | ***Total*** | ***Armenia*** | ***OECD*** | ***CIS and other foreign banks*** | ***Total*** |
| **Assets** | | | | | | | | |
| Cash | 42,238,172 | – | – | **42,238,172** | 45,575,878 | – | – | **45,575,878** |
| Placements with banks and other financial institutions in foreign currency | 4,944,031 | 341,961,418 | 1,161,408 | **348,066,857** | 6,799,467 | 331,114,957 | 536,922 | **338,451,346** |
| Placements and investments with banks and other financial institutions in domestic currency | 443,648,161 | – | – | **443,648,161** | 307,508,525 | – | – | **307,508,525** |
| Financial instruments at fair value through profit or loss | – | 704,860,473 | – | **704,860,473** | – | 707,060,655 | – | **707,060,655** |
| Derivative financial assets | 43,849 | – | – | **43,849** | – | 202,928 | – | **202,928** |
| Financial assets measured at fair value through other comprehensive income | 89,348,388 | 1,918,000 | – | **91,266,388** | – | – | – | – |
| Available-for-sale assets | – | – | – | – | 92,039,044 | 2,321,188 | – | **94,360,232** |
| Held-to-maturity assets | – | – | – | – | – | 32,089,943 | – | **32,089,943** |
| Placements with the IMF | – | 89,548,497 | – | **89,548,497** | – | 92,296,129 | – | **92,296,129** |
| Property and equipment and intangible assets | 71,531,642 | – | – | **71,531,642** | 76,133,890 | – | – | **76,133,890** |
| Other assets | 14,795,872 | 62,689 | 97,272 | **14,955,833** | 15,254,120 | 227,616 | 97,272 | **15,579,008** |
| **Total assets** | **666,550,115** | **1,138,351,077** | **1,258,680** | **1,806,159,872** | **543,310,924** | **1,165,313,416** | **634,194** | **1,709,258,534** |
| **Liabilities** | | | | | | | | |
| Notes and coins in circulation | 566,706,467 | – | – | **566,706,467** | 516,094,481 | – | – | **516,094,481** |
| Deposits and accounts of financial and other institutions | 614,176,880 | 13,072 | 318,898 | **614,508,850** | 564,189,843 | 411,900 | 303,576 | **564,905,319** |
| Derivative financial liabilities | – | 97,040 | – | **97,040** | 13,184 | – | – | **13,184** |
| Due to the Government | 190,749,003 | – | – | **190,749,003** | 162,743,850 | – | – | **162,743,850** |
| Due to the IMF | – | 266,323,100 | – | **266,323,100** | – | 291,752,144 | – | **291,752,144** |
| Other borrowed funds | – | 145,026,239 | 6,684,513 | **151,710,752** | – | 147,200,496 | 8,381,125 | **155,581,621** |
| Debt securities issued | 7,838,688 | – | – | **7,838,688** | 4,751,824 | – | – | **4,751,824** |
| Other liabilities | 4,649,880 | 287,622 | 333,144 | **5,270,646** | 4,796,663 | 238,603 | 111,955 | **5,147,221** |
| **Total liabilities** | **1,384,120,918** | **411,747,073** | **7,336,555** | **1,803,204,546** | **1,252,589,845** | **439,603,143** | **8,796,656** | **1,700,989,644** |
| **Net assets** | **(717,570,803)** | **726,604,004** | **(6,077,875)** | **2,955,326** | **(709,278,921)** | **725,710,273** | **(8,162,462)** | **8,268,890** |

### Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments service and for smoothing out sharp fluctuations in national currency in the domestic market. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

*Analysis of financial liabilities by remaining contractual maturities*

The tables below show liabilities at 31 December 2018 and 31 December 2017 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

## 30. Risk management (continued)

### Liquidity risk and funding management (continued)

*Analysis of financial liabilities by remaining contractual maturities (continued)*

| In thousands of Armenian Drams | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | No maturity | Total |
|---|---|---|---|---|---|---|---|
| | *31 December 2018* | | | | | | |
| **Financial liabilities** | | | | | | | |
| Notes and coins in circulation | 566,706,467 | – | – | – | – | – | **566,706,467** |
| Deposits and accounts of financial and other institutions | 612,518,304 | – | 200,700 | 2,100,625 | – | – | **614,819,629** |
| Derivative financial liabilities | 97,040 | – | – | – | – | – | **97,040** |
| Due to the Government | 75,591,432 | 97,812,401 | 18,503,791 | – | – | – | **191,907,624** |
| Due to the IMF | – | 1,317,354 | 19,937,289 | 85,235,919 | 21,161,217 | 145,687,369 | **273,339,148** |
| Other borrowed funds | 699,760 | – | 15,273,479 | 72,021,333 | 85,185,419 | – | **173,179,991** |
| Debt securities issued | – | 124,500 | 5,258,160 | 3,373,500 | – | – | **8,756,160** |
| **Total non-discounted financial liabilities** | **1,255,613,003** | **99,254,255** | **59,173,419** | **162,731,377** | **106,346,636** | **145,687,369** | **1,828,806,059** |

| In thousands of Armenian Drams | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | No maturity | Total |
|---|---|---|---|---|---|---|---|
| | *31 December 2017* | | | | | | |
| **Financial liabilities** | | | | | | | |
| Notes and coins in circulation | 516,094,481 | – | – | – | – | – | **516,094,481** |
| Deposits and accounts of financial and other institutions | 559,721,795 | 56,259 | 462,922 | 6,750,261 | – | – | **566,991,237** |
| Derivative financial liabilities | 13,184 | – | – | – | – | – | **13,184** |
| Due to the Government | 51,898,136 | 66,768,538 | 45,099,381 | 331,715 | – | – | **164,097,770** |
| Due to the IMF | – | 611,419 | 17,610,445 | 95,421,483 | 36,824,739 | 149,255,083 | **299,723,169** |
| Other borrowed funds | 570,500 | 23,842 | 11,842,946 | 67,146,556 | 98,630,305 | – | **178,214,149** |
| Debt securities issued | – | – | 495,060 | 5,133,660 | – | – | **5,628,720** |
| **Total non-discounted financial liabilities** | **1,128,298,096** | **67,460,058** | **75,510,754** | **174,783,675** | **135,455,044** | **149,255,083** | **1,730,762,710** |

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Within the three-level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimisation principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now three years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (one year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Black-Litterman and Markowitz models with certain constraints are used.

For risk monitoring, the Risk Management division of the Financial Department uses a number of widely used risk measures like Value at Risk, Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2018 and available-for-sale assets at 31 December 2017 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

## 30. Risk management (continued)

### Interest rate risk (continued)

| In thousands of Armenian Drams | 2018 Change in yield curve, b.p. | 2018 Effect on equity | 2017 Change in yield curve, b.p. | 2017 Effect on equity |
|---|---|---|---|---|
| **Currency** | | | | |
| AMD | +100 | (616,764) | +160 | (995,556) |
| AMD | -80 | 532,393 | -350 | 2,717,165 |
| USD | +50 | (16,287) | +50 | – |
| USD | -15 | 5,229 | -50 | – |

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2018 and 31 December 2017, based on the assumption of changing interest rates. Amounts included in the table below are presented in the original currency.

| | 2018 Change in basis points | 2018 Increase/ (decrease) of net result on financial instruments at FVTPL and equity | 2017 Change in basis points | 2017 Increase/ (decrease) of net result on financial instruments at FVTPL and equity |
|---|---|---|---|---|
| **Currency** | | | | |
| USD | +50/-15 | (2,595,600)/778,680 | +/-50 | (2,627,873)/2,627,873 |
| EUR | +20/-1 | (65,493)/817,498 | +/-50 | (775,900)/775,900 |
| GBP | +50/-20 | (130,250)/52,100 | +30/-8 | -/- |

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2018 and 31 December 2017.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2018 and 31 December 2017 based on the assumption of changing interest rates on borrowings obtained by the Group:

| In thousands of Armenian Drams | 2018 Change in basis points | 2018 Increase/ (decrease) of net interest expense and decrease/ (increase) of equity | 2017 Change in basis points | 2017 Increase/ (decrease) of net interest expense and decrease/ (increase) of equity |
|---|---|---|---|---|
| **Currency** | | | | |
| USD | +/-161 | 342,279/(342,279) | +/-110 | 239,464/(239,464) |
| SDR | +/-36 | 407,588/(407,588) | +/-50 | 627,273/(627,273) |

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

### Currency risk

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

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Armenian Dram with all other variables held constant:

| In thousands of Armenian Drams | 2018 Increase in currency rate in % | 2018 Increase/ (decrease) of profit and equity | 2017 Increase in currency rate in % | 2017 Increase/ (decrease) of profit and equity |
|---|---|---|---|---|
| **Currency** | | | | |
| USD | 3.50% | 18,192,069 | 3.50% | 21,648,693 |
| EUR | 8.00% | 9,350,778 | 13.70% | 16,035,808 |
| GBP | 10.00% | 3,570,141 | 10.00% | 3,815,183 |
| JPY | 7.00% | 1,489,656 | 8.50% | 2,023,396 |
| RUB | 15.00% | 56,940 | 20.00% | 18,287 |
| SDR | 6.00% | (11,007,547) | 6.50% | (13,509,498) |

## 30. Risk management (continued)

### Currency risk (continued)

| In thousands of Armenian Drams | 2018 Decrease in currency rate in % | 2018 Increase/ (decrease) of profit and equity | 2017 Decrease in currency rate in % | 2017 Increase/ (decrease) of profit and equity |
|---|---|---|---|---|
| **Currency** | | | | |
| USD | -3.50% | (18,192,069) | -3.50% | (21,648,693) |
| EUR | -8.00% | (9,350,778) | -6.30% | (7,374,131) |
| GBP | -10.00% | (3,570,141) | -10.00% | (3,815,183) |
| JPY | -7.00% | (1,489,656) | -8.50% | (2,023,396) |
| RUB | -15.00% | (56,940) | -20.00% | (18,287) |
| SDR | -6.00% | 11,007,547 | -5.50% | 11,431,113 |

The expected change in the exchange rates was determined by the Group by analysing annual standard deviations based on the historical market data of respective exchange rates.

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Armenia's foreign public debt is the major reason for holding reserves and is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject of revision at least semi-annually.

### Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- Participation in the shareholders' meetings;
- Appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries);
- Regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries;
- Performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate;
- Review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

In 2015 the Bank has adopted a policy of activation of discussions with possible potential institutional investors regarding the disposal of its investments in the subsidiaries of the Bank.

## 31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

| | *31 December 2018* | | |
|---|---|---|---|
| *In thousands of Armenian Drams* | ***Current*** | ***Non-current*** | ***Total*** |
| **Assets** | | | |
| Cash | 42,238,172 | – | **42,238,172** |
| Placements with banks and other financial institutions in foreign currency | 344,738,924 | 3,327,933 | **348,066,857** |
| Financial instruments at fair value through profit or loss | 704,860,473 | – | **704,860,473** |
| Placements and investments with banks and other financial institutions in domestic currency | 241,356,600 | 202,291,561 | **443,648,161** |
| Derivative financial assets | 43,849 | – | **43,849** |
| Financial assets measured at fair value through other comprehensive income | 75,369,453 | 15,896,935 | **91,266,388** |
| Placements with the IMF | 2,893,145 | 86,655,352 | **89,548,497** |
| Property and equipment | – | 68,740,919 | **68,740,919** |
| Intangible assets | – | 2,790,723 | **2,790,723** |
| Other assets | 13,199,399 | 1,756,434 | **14,955,833** |
| **Total assets** | **1,424,700,015** | **381,459,857** | **1,806,159,872** |
| **Liabilities** | | | |
| Notes and coins in circulation | 566,706,467 | – | **566,706,467** |
| Deposits and accounts of other financial institutions | 612,508,850 | 2,000,000 | **614,508,850** |
| Derivative financial liabilities | 97,040 | – | **97,040** |
| Due to the Government | 190,749,003 | – | **190,749,003** |
| Due to the IMF | 19,550,143 | 246,772,957 | **266,323,100** |
| Other borrowed funds | 13,226,647 | 138,484,105 | **151,710,752** |
| Debt securities issued | 4,838,688 | 3,000,000 | **7,838,688** |
| Other liabilities | 5,235,792 | 34,854 | **5,270,646** |
| **Total liabilities** | **1,412,912,630** | **390,291,916** | **1,803,204,546** |
| **Net position as at 31 December 2018** | **11,787,385** | **(8,832,059)** | **2,955,326** |

| | *31 December 2017* | | |
|---|---|---|---|
| *In thousands of Armenian Drams* | ***Current*** | ***Non-current*** | ***Total*** |
| **Assets** | | | |
| Cash | 45,575,878 | – | **45,575,878** |
| Placements with banks and other financial institutions in foreign currency | 333,610,346 | 4,841,000 | **338,451,346** |
| Financial instruments as fair value through profit or loss | 707,060,655 | – | **707,060,655** |
| Placements and investments with banks and other financial institutions in domestic currency | 110,217,371 | 197,291,154 | **307,508,525** |
| Derivative financial assets | 202,928 | – | **202,928** |
| Available-for-sale assets | 78,370,115 | 15,990,117 | **94,360,232** |
| Held-to-maturity assets | 28,804,391 | 3,285,552 | **32,089,943** |
| Placements with the IMF | 3,498,833 | 88,797,296 | **92,296,129** |
| Property and equipment | – | 73,096,780 | **73,096,780** |
| Intangible assets | – | 3,037,110 | **3,037,110** |
| Other assets | 13,021,003 | 2,558,005 | **15,579,008** |
| **Total assets** | **1,320,361,520** | **388,897,014** | **1,709,258,534** |
| **Liabilities** | | | |
| Notes and coins in circulation | 516,094,481 | – | **516,094,481** |
| Deposits and accounts of other financial institutions | 559,657,039 | 5,248,280 | **564,905,319** |
| Derivative financial liabilities | 13,184 | – | **13,184** |
| Due to the Government | 162,422,906 | 320,944 | **162,743,850** |
| Due to the IMF | 16,529,679 | 275,222,465 | **291,752,144** |
| Other borrowed funds | 9,698,462 | 145,883,159 | **155,581,621** |
| Debt securities issued | 41,224 | 4,710,600 | **4,751,824** |
| Other liabilities | 5,111,688 | 35,533 | **5,147,221** |
| **Total liabilities** | **1,269,568,663** | **431,420,981** | **1,700,989,644** |
| **Net position as at 31 December 2017** | **50,792,857** | **(42,523,967)** | **8,268,890** |

## 32. Changes in liabilities arising from financing activities

| *In thousands of Armenian Drams* | ***Total liabilities from financing activities*** |
|---|---|
| **Carrying amount at 31 December 2016** | **393,926,428** |
| Loans received | 52,568,044 |
| Loans redeemed | (23,274,235) |
| Foreign currency translation | 24,703,243 |
| Other | 375,753 |
| **Carrying amount at 31 December 2017** | **448,299,233** |
| Loans received | 9,419,398 |
| Loans redeemed | (29,292,741) |
| Foreign currency translation | (10,199,454) |
| Other | 129,281 |
| **Carrying amount at 31 December 2018** | **418,355,717** |

The “Other” line includes the effect of accrued but not yet paid interest. The Group classifies interest paid as cash flows from operating activities.






**CENTRAL BANK**
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