

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

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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.

- ▶ 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)

29 March 2019

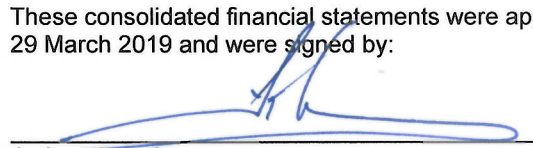
Eric Hayrapetyan

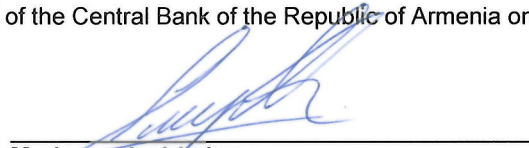


Consolidated statement of comprehensive income**For the year ended 31 December 2018**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
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			
<i>Items that may be reclassified subsequently to profit or loss</i>			
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
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</i>			
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**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	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**

<i>In thousands of Armenian Drams</i>	<i>Attributable to owners of the Bank</i>					<i>Total</i>	<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Issued capital</i>	<i>General reserve</i>	<i>Promissory note issued by the Government</i>	<i>Revaluation reserve for financial assets measured at fair value through other comprehensive income/Available -for-sale financial assets</i>	<i>Accumulated deficit</i>			
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**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
Cash flows from operating activities			
(Loss)/profit before tax		(397,711)	3,571,699
<i>Adjustments to reconcile (loss)/profit for the year to net cash flows</i>			
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
<i>Net (increase)/decrease in operating assets</i>			
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
<i>Net increase/(decrease) in operating liabilities</i>			
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:

<i>Name</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Controlled, %</i>		<i>Date of establishment</i>
			<i>2018</i>	<i>2017</i>	
"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 depository 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:

<i>In thousands of Armenian Drams</i>	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.

<i>In thousands of Armenian Drams</i>	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 contracts, 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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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**

<i>In thousands of Armenian Drams</i>	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:

<i>Placements with banks and other financial institutions in foreign currency (In thousands of Armenian Drams)</i>	<i>Stage 1</i>	<i>Total</i>
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
<i>Placements with banks and other financial institutions in foreign currency (In thousands of Armenian Drams)</i>	<i>Stage 1</i>	<i>Total</i>
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

<i>In thousands of Armenian Drams</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
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:

<i>In thousands of Armenian Drams</i>	<i>Fair value as at 31 December 2018</i>	<i>Fair value as at 31 December 2017</i>
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

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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.

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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:

<i>Debt securities at FVOCI in domestic currency - Securities of the Government of the Republic of Armenia (In thousands of Armenian Drams)</i>	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

<i>Debt securities at FVOCI in domestic currency - Securities of the Government of the Republic of Armenia (In thousands of Armenian Drams)</i>	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:

<i>Debt securities at FVOCI in foreign currency (In thousands of Armenian Drams)</i>	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

<i>Debt securities at FVOCI in foreign currency (In thousands of Armenian Drams)</i>	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

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	<i>Land and buildings</i>	<i>Networks, computer and other equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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

<i>In thousands of Armenian Drams</i>	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):

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	31 December 2018		31 December 2017	
	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:

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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.

<i>In thousands of Armenian Drams</i>	31 December 2018		31 December 2017	
	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:

<i>In thousands of Armenian Drams</i>	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.

<i>In thousands of Armenian Drams</i>	31 December 2018		31 December 2017	
	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:

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	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:

<i>In thousands of Armenian Drams</i>	31 December 2018				31 December 2017			
	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)

<i>In thousands of Armenian Drams</i>	31 December 2018			31 December 2017		
	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:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
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:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
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:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>	<i>Range of inputs (weighted average)</i>	<i>Reasonable change</i>	<i>Sensitivity of fair value measurement</i>
Assets carried at fair value						
Financial assets						
Derivative financial assets	13,938	DCF	1) AMD risk-free rate 2) USD risk-free rate 3) EUR risk-free rate 4) USD/AMD spot rate at the year-end 5) EUR/AMD spot rate at the year-end 6) Expected net amount of external debt – USD 7) Expected net amount of external debt – EUR	1) 5.99% 2) 4.46% 3) 1.59% 4) 483.75 5) 553.65 6) USD 6,445 thousand 7) EUR 100 thousand	1) +100/-80 b.p. 2) +50/-15 b.p. 3) + 20/-1 b.p. 4) n/a 5) n/a 6) ± 10% 7) ± 10%	1) (2,532)/2,044 2) 1,259/(379) 3) 9/(0.4) 4) n/a 5) n/a 6) (1,414)/1,414 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	1) 5.63%	1) +160/-350 b.p.	1) (3,636)/8,167
			2) USD risk-free rate	2) 3.36%	2) +70/-8 b.p.	2) 1,608/(184)
			3) EUR risk-free rate	3) 1.43%	3) + 25/-1 b.p.	3) 12/(0.4)
			4) USD/AMD spot rate at the year-end	4) 484.10	4) n/a	4) n/a
			5) EUR/AMD spot rate at the year-end	5) 580.10	5) n/a	5) n/a
			6) Expected net amount of external debt – USD thousand	6) USD 5,811 thousand	6) ± 10%	6) (1,119)/1,119
			7) Expected net amount of external debt – EUR thousand	7) EUR 100 thousand	7) ± 10%	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:

<i>In thousands of Armenian Drams</i>	31 December 2018		31 December 2017	
	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		88,586,383	100.0	91,332,221	100.0
(Previously classified as total available-for-sale assets, excluding equity investments)					
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	
<i>In thousands of Armenian Drams</i>	<i>Credit rating</i>	<i>Amount</i>	<i>% in financial assets</i>	<i>Amount</i>	<i>% in financial assets</i>
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 <i>Probability of Default</i> 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 <i>Exposure at Default</i> 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 <i>Loss Given Default</i> 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 unlikelihood 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 (Moody's) 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:

<i>In thousands of Armenian Drams</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position Financial instruments</i>	<i>Net amount</i>
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	–

<i>In thousands of Armenian Drams</i>	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position Financial instruments</i>	<i>Net amount</i>
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:

<i>In thousands of Armenian Drams</i>	31 December 2018				31 December 2017			
	<i>Armenia</i>	<i>OECD</i>	<i>CIS and other foreign banks</i>	<i>Total</i>	<i>Armenia</i>	<i>OECD</i>	<i>CIS and other foreign banks</i>	<i>Total</i>
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)

31 December 2018							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total</i>
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
31 December 2017							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total</i>
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)

<i>In thousands of Armenian Drams</i>	2018		2017	
	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>
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		2017	
	<i>Change in basis points</i>	<i>Increase/ (decrease) of net result on financial instruments at FVTPL and equity</i>	<i>Change in basis points</i>	<i>Increase/ (decrease) of net result on financial instruments at FVTPL and equity</i>
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:

<i>In thousands of Armenian Drams</i>	2018		2017	
	<i>Change in basis points</i>	<i>Increase/ (decrease) of net interest expense and decrease/ (increase) of equity</i>	<i>Change in basis points</i>	<i>Increase/ (decrease) of net interest expense and decrease/ (increase) of equity</i>
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:

<i>In thousands of Armenian Drams</i>	2018		2017	
	<i>Increase in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>	<i>Increase in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>
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)

<i>In thousands of Armenian Drams</i>	2018		2017	
	<i>Decrease in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>	<i>Decrease in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>
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.

<i>In thousands of Armenian Drams</i>	31 December 2018		
	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

<i>In thousands of Armenian Drams</i>	31 December 2017		
	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

<i>In thousands of Armenian Drams</i>	<i>Total liabilities from financing activities</i>
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.