Financial Statements and Independent Auditor's Report

“ARMBUSINESSBANK” Closed Joint Stock Company

31 December 2017

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To the shareholder of "ARMBUSINESSBANK" Closed Joint Stock Company

Opinion

We have audited the financial statements of "ARMBUSINESSBANK" Closed Joint Stock Company (the "Bank"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Emphasis of matter

We draw your attention to the Note 38, which presents the political situation in Armenia and the uncertainties associated with it since 13 April 2018. According to the Bank's management assessments, these processes have no significant influence on the Bank's activity, and hence, there is no need to adjust the Bank's financial statements for the year ended 31 December 2017. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

- *Loan impairment allowance*

Loan impairment allowance is a key audit matter due to the significance of the loans to customers as well as subjectivity of underlying assumptions for impairment estimation. The use of various assumptions and judgments may lead to significantly different estimation of loan impairment allowance, which could have material effect on the financial results of the Bank. The judgments and assumptions may relate to the estimation of objective evidence of impairment, financial condition of the borrower, expected cash flows, cost of the collateral and realization period as well as losses incurred but not yet disclosed.

For estimating the impairment losses on individually significant loans we have investigated the judgments and assumptions underlying the disclosure and amounts of impairment, the market values of collaterals, as well as the forecasts of future cash flows etc.

We have reviewed the structure and effectiveness of the existing control mechanisms, the calculation of write-offs and the number of overdue days of loans, models and assumptions underlying the calculation of the collective impairment for the purpose of estimating the accuracy of allowances created as a result of the collective impairment.

We have also performed audit procedures aimed at estimating the disclosures of the credit risk in the financial statements, the disclosures of the assumptions and judgments related to the impairment allowance.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Gagik Gyulbudaghyan
Managing Partner

Armen Hovhannisyan
Engagement Partner

27 April 2018

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	35,262,768	29,843,923
Interest and similar expense	6	(28,374,816)	(21,869,138)
Net interest income		6,887,952	7,974,785
Fee and commission income	7	3,282,273	2,532,401
Fee and commission expense	7	(883,875)	(687,135)
Net fee and commission income		2,398,398	1,845,266
Net trading income	8	1,429,550	781,807
Foreign currency translation net gain/(losses) of non-trading assets and liabilities		(4,755)	358,657
Net gains less losses on investments available for sale		16,987	3,728
Other income	9	2,525,494	2,175,814
Impairment charge	10	(3,105,599)	(4,602,720)
Staff costs	11	(3,626,877)	(3,297,734)
Depreciation of property and equipment	19	(819,859)	(808,868)
Amortization of intangible assets	20	(161,098)	(179,631)
Other expenses	12	(3,871,793)	(2,960,373)
Profit before income tax		1,668,400	1,290,731
Income tax expense	13	(388,206)	(237,550)
Profit for the year		1,280,194	1,053,181
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain from changes in fair value of investments available-for-sale		562,783	1,948,255
Net (gains)/loss realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments		69,375	(234,308)
Income tax relating to items that will be reclassified		(126,432)	(342,789)
Other comprehensive income for the year, net of tax		505,726	1,371,158
Total comprehensive income for the year		1,785,920	2,424,339

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016
Assets			
Cash and cash equivalents	14	115,576,209	63,215,155
Amounts due from other financial institutions	15	14,036,722	8,532,277
Derivative financial assets	16	-	22,848
Loans to customers	17	382,547,013	275,926,637
Investments available for sale	18	1,649,612	171,309
Securities pledged under repurchase agreements		15,258,125	35,667,112
Prepaid income taxes		-	163,641
Property, plant and equipment	19	9,138,396	9,256,996
Intangible assets	20	2,702,599	2,422,927
Repossessed assets	21	3,716,481	4,522,347
Other assets	22	2,905,216	1,767,496
Total assets		547,530,373	401,668,745
Liabilities and equity			
Liabilities			
Derivative financial liabilities	16	-	42,456
Amounts due to financial institutions	23	76,004,421	82,827,456
Financial liabilities held for trading	24	24,556,156	21,489,072
Amounts due to Government of the RA	25	692,952	1,161,395
Amounts due to customers	26	398,967,148	260,121,062
Debt securities issued	27	8,967,294	-
Current income tax liability		296,211	-
Deferred income tax liabilities	13	7,716	66,944
Other liabilities	28	1,201,476	909,281
Total liabilities		510,693,374	366,617,666

Statement of financial position (continued)

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016
Equity			
Share capital	29	31,374,560	31,374,560
Statutory general reserve		691,167	638,508
Other reserves		2,480,668	1,974,942
Retained earnings		2,290,604	1,063,069
Total equity		36,836,999	35,051,079
Total liabilities and equity		547,530,373	401,668,745

The financial statements from pages 6 to 63 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on 27 April 2018.

Arsen Mikayelyan
Chairman of the Executive Board

Narine Sargsyan
Chief Accountant

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of 31 December 2016	22,907,500	576,319	132,362	471,422	4,533,597	28,621,200
Increase in share capital	8,467,060	-	-	-	(4,461,520)	4,005,540
Distribution to reserve	-	62,189	-	-	(62,189)	-
Transactions with owners	8,467,060	62,189	-	-	(4,523,709)	4,005,540
Profit for the year	-	-	-	-	1,053,181	1,053,181
Other comprehensive income:						
Net unrealized gains from changes in fair value	-	-	1,948,255	-	-	1,948,255
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	-	-	(234,308)	-	-	(234,308)
Income tax relating to components of other comprehensive income	-	-	(342,789)	-	-	(342,789)
Total comprehensive income for the year	-	-	1,371,158	-	1,053,181	2,424,339
Balance as of 31 December 2016	31,374,560	638,508	1,503,520	471,422	1,063,069	35,051,079
Distribution to reserve	-	52,659	-	-	(52,659)	-
Transactions with owners	-	52,659	-	-	(52,659)	-
Profit for the year	-	-	-	-	1,280,194	1,280,194
Other comprehensive income:						
Net unrealized gains from changes in fair value	-	-	562,783	-	-	562,783
Net loss realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	-	-	69,375	-	-	69,375
Income tax relating to components of other comprehensive income	-	-	(126,432)	-	-	(126,432)
Total comprehensive income for the year	-	-	505,726	-	1,280,194	1,785,920
Balance as of 31 December 2017	31,374,560	691,167	2,009,246	471,422	2,290,604	36,836,999

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit before tax	1,668,400	1,290,731
Adjustments for		
Amortization and depreciation allowances	980,957	988,499
Income from sale of PPE	(13,129)	(248)
Impairment charge	3,105,599	4,602,720
Net (gain)/loss from changes in fair value of instruments held for trading	(19,880)	95,907
Interest receivable	(5,078,406)	(6,729,472)
Interest payable	996,153	1,146,833
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	4,755	(358,657)
Cash flows from operating activities before changes in operating assets and liabilities	1,644,449	1,036,313
(Increase)/decrease in operating assets		
Amounts due from financial institutions	(5,204,585)	(2,301,558)
Derivative financial assets	42,728	(112,395)
Securities pledged under repurchase agreements	20,483,070	(14,147,208)
Loans and advances to customers	(102,663,389)	(55,413,487)
Repossessed assets	805,866	632,668
Other assets	(521,036)	69,018
Increase/(decrease) in operating liabilities		
Derivative financial liabilities	(42,456)	27,784
Amounts due to financial institutions	(18,023,948)	17,042,192
Financial liabilities held for trading	3,067,084	9,021,385
Amounts due to Government of the RA	(467,713)	(1,975,489)
Amounts due to customers	135,379,207	78,557,200
Other liabilities	177,865	329,429
Net cash from operating activities before income tax	34,677,142	32,765,852
Income tax paid	(114,014)	(4,379)
Net cash from operating activities	34,563,128	32,761,473

Statement of cash flows (continued)

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from investing activities		
(Purchase)/sale of investment securities	(804,072)	3,233,737
Purchase of property and equipment	(925,867)	(1,149,919)
Purchase of intangible assets	(440,770)	(585,478)
Sale of property and equipment	237,737	37,220
Net cash (used in)/from investing activities	(1,932,972)	1,535,560
Cash flow from financing activities		
Issue of share capital	-	4,005,540
Loans received from financial institutions	9,770,445	891,657
Debt securities issued	8,912,120	-
Net cash from financing activities	18,682,565	4,897,197
Net increase in cash and cash equivalents	51,312,721	39,194,230
Cash and cash equivalents at the beginning of the year	63,215,155	24,110,724
Exchange differences on cash and cash equivalents	1,048,333	(89,799)
Cash and cash equivalents at the end of the year (refer to note 14)	115,576,209	63,215,155
Supplementary information:		
Interest received	30,184,362	23,114,451
Interest paid	(27,378,663)	(20,722,305)

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

“ARMBUSINESSBANK” Closed Joint Stock Company (previous “Hayinvestbank” CJSC) (the “Bank”) was incorporated in the Republic of Armenia in 1991. The Bank is regulated by the legislation of RA and conducts its business under license number 40, granted on 10 December 1991 by the Central Bank of Armenia (the “CBA”).

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

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

The Bank’s main office and its 24 branches are located in Yerevan, 22 branches are located in different regions of Armenia and 7 branches are located in the Republic of Nagorno Karabakh.

The registered office of the Bank is located at: 48 Nalbandyan Street, Yerevan.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2017, did not have a material impact on the annual consolidated financial statements of the Bank.

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*
- *Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12.*

3.5 Standards and interpretations not yet applied by the Bank

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

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

IFRS 9 Financial Instruments **(2014)**

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

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

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

The adoption of the new standard may have a material impact on the opening balance of the Bank's equity as of 1 January 1 2018.

The above assessment is preliminary because not all transition work has been finalised. Especially, The Bank has not yet completed to revise its accounting processes and internal controls changes in accordance with IFRS 9, the refining and finalising its models for ECL calculations and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

Classification – Financial assets and Financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.
IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

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

A financial asset is classified into one of these categories on initial recognition.

It eliminates the existing IAS 39 categories of held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

– Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

– Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

– Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

The classification and measurement assessment as at 31 December 2016 may not necessarily represent the impact on the Bank's financial statements as at 1 January 2018 because IFRS 9 requires the business model assessment to be undertaken based on the facts and circumstances that exist at the date of initial application, which will be 1 January 2018 for the Bank.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

– the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and

– the remaining amount of the change in the fair value will be presented in profit or loss

Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The Bank will recognize loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

– financial assets measured at amortised cost
– financial assets measured at fair value through other comprehensive income
– lease receivables
– contract assets
– loan commitments to provide a loan at a below-market interest rate
– financial guarantee contracts

Under IFRS 9, no impairment loss is recognised on equity investments.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas,

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

– incorporating forward-looking information into the measurement of ECLs;

– Definition of default.

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

– PD;

– loss given default (LGD); and

– exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. Loss allowances on unsecured products with longer expected lives such as overdrafts and credit cards will be most affected by the new impairment requirements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

– The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

– The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.

- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk at 1 January 2018, then the Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Bank's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Bank's management have not yet assessed the impact of IFRS 16 on these financial statements.

Other standards

The following amended standards and interpretations are not expected to have significant impact on the Bank's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019).

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the statement of profit or loss and other comprehensive income using the effective interest method.

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 recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established. Share premium is not subject to taxation according to the RA Tax legislation.

Net trading income

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

4.2 Foreign currency translation

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

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

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

	31 December 2017	31 December 2016
AMD/1 US Dollar	484.10	483.94
AMD/1 EUR	580.10	512.20

4.3 Taxation

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

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

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

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

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

The Republic of Armenia also has various operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories:

- financial instruments at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial instruments.

The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of profit or loss and other comprehensive income.

Loans and receivables

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

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

Available-for-sale financial assets

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

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

4.8 Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Impairment allowances of financial assets have been identified in the financial statements on the basis of existing economic conditions. Bank is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

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

Available-for-sale financial assets

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in “Net trading income”.

4.12 Leases

Operating - Bank as lessee

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

4.13 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. The Bank’s buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is higher than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	**Rate (%)**
Buildings	30	3.3
Computers	3	33.3
ATMs	10	10
Vehicles	5	20
Office equipment	5	20
Other fixed assets	5	20

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

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

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

The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

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

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

4.14 Intangible assets

Intangible assets include computer software and licenses.

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

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

4.15 Repossessed assets

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

4.16 Grants

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

4.17 Borrowings

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

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of income.

4.18 Financial guarantees

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

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

4.19 Provisions

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

4.20 Equity

Share capital

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for available-for-sale investments

This reserve records fair value changes in available-for-sale-investments.

4.21 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair value

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to Note 32).

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as available-for-sale financials assets with recognition of changes in fair value through equity.

Useful life of PPE

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

Derivatives

The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. The present value of floating obligation is determined using discount factors derived from the zero coupon curve. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 31).

Impairment of loans

The Bank reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of impairment. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations (refer to note 30).

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	2017	2016
Loans to customers	31,533,456	26,538,309
Debt investment securities available-for-sale	1,666,094	1,567,857
Amounts due from financial institutions	576,362	315,054
Reverse repurchase transactions	1,445,773	1,392,410
Interest accrued on individually impaired financial assets	40,219	29,478
Other interest income	864	815
Total interest and similar income	35,262,768	29,843,923
Amounts due to financial institutions	4,534,419	3,408,550
Repurchase transactions	173,078	944,762
Amounts due to RA Government	32,602	51,745
Amounts due to customers	23,537,124	17,464,081
Debt securities issued	97,593	-
Total interest and similar expense	28,374,816	21,869,138

7 Fee and commission income and expense

In thousand Armenian drams	2017	2016
Cash operations	295,641	302,094
Utility payments	28,975	20,231
Payment transactions/money transfers	904,142	453,145
Loan servicing	901,042	730,143
Plastic cards operations	867,359	635,092
Guarantees	268,675	377,633
Operations with securities	16,439	13,532
Other fees and commissions	-	531
Total fee and commission income	3,282,273	2,532,401
Payment transactions/money transfers	282,840	206,573
Cash operations	3,284	12,341
Plastic cards operations	565,024	449,504
Operations with securities	7,981	3,630
Operations with letters of credit	18,260	3,468
Other expenses	6,486	11,619
Total fee and commission expense	883,875	687,135

8 Net trading income

In thousand Armenian drams	2017	2016
Net income from foreign currency operations	1,450,704	1,143,458
Net losses from foreign currency swap	(21,154)	(361,651)
Total net trading income	1,429,550	781,807

9 Other income

In thousand Armenian drams	2017	2016
Fines and penalties received	2,171,120	1,482,589
Insurance compensations	50	378,649
Income from grants	82	82
Income from sale of fixed assets	13,129	248
Income from sale of repossessed property	14,762	43,713
Income from closing of accounts	7,618	7,128
Income from extension of certificates	8,115	7,981
Income from loan and guarantee applications examination	34,145	13,972
Income from money transfers	68,992	85,398
Income from internet banking services	78,782	49,207
Income from vehicle technical screening coupons	50,154	37,912
Income from operations with precious metals	35,989	38,469
Other income	42,556	30,466
Total other income	2,525,494	2,175,814

10 Impairment charge

In thousand Armenian drams	2017	2016
Loans and advances to customers (Note 17)	3,105,599	4,602,720
Total impairment charge	3,105,599	4,602,720

11 Staff costs

In thousand Armenian drams	2017	2016
Salary and other compensations of employees	3,619,093	3,292,413
Other expenses	7,784	5,321
Total staff costs	3,626,877	3,297,734

12 Other expenses

In thousand Armenian drams	2017	2016
Consulting and other services	111,355	85,100
Operating lease	184,310	154,460
Taxes, other than income tax, duties	310,128	275,210
Advertising costs	198,421	171,500
Insurance expenses	65,336	40,325
Representative expenses	46,760	49,181
Expenses on acquisition and issuance of plastic cards	51,045	82,574
Legal service expenses	-	129,039
Cash collection expenses	63,615	63,252
Administrative expenses	456,506	323,580
Loss from disposal of repossessed property	197,685	822
Repair and maintenance of tangible assets	383,108	337,020
Use and servicing expenses of computer programs	171,640	147,011
Communications	110,025	87,781
Security	179,943	169,384
Deposit guarantee fund expenses	997,683	575,649
Office supplies	91,996	81,186
Business trip expenses	130,185	83,917
Loan extension and repayment expenses	70,098	64,984
Payments to Financial system mediator	40,441	29,212
Penalties paid	677	966
Other expenses	10,836	8,220
Total other expense	3,871,793	2,960,373

13 Income tax expense

In thousand Armenian drams	2017	2016
Current tax expense	573,866	291,200
Deferred tax	(185,660)	(53,650)
Total income tax expense	388,206	237,550

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2016: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2017	Effective rate (%)	2016	Effective rate (%)
Profit before tax	1,668,400		1,290,731	
Income tax at the rate of 20%	333,680	20	258,146	20
Non-taxable income	(5,737)	-	(5,121)	-
Non-deductible expenses	90,303	5	68,509	5
Foreign exchange gains	(7,091)	-	(57,035)	(4)
Taxable income	(2,427)	-	1,136	-
Taxable expenses	(5,164)	-	(11,181)	(1)
Deductions arisen from payments to disabled workers	(15,358)	(1)	(16,904)	(1)
Total income tax expense	388,206	24	237,550	19

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2017
Other liabilities	79,697	(9,219)	-	70,478
Loans to customers	431,214	218,985	-	650,199
Total deferred tax assets	510,911	209,766	-	720,677
Other assets	(19,267)	(6,087)	-	(25,354)
Available for sale investments	(375,881)	-	(126,432)	(502,313)
Amortization of PPE	(82,530)	(340)	-	(82,870)
Revaluation of PPE	(100,177)	(17,679)	-	(117,856)
Total deferred tax liability	(577,855)	(24,106)	(126,432)	(728,393)
Net deferred tax liability	(66,944)	185,660	(126,432)	(7,716)

In thousand Armenian drams	31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2016
Other liabilities	35,196	44,501	-	79,697
Loans to customers	351,926	79,288	-	431,214
Total deferred tax assets	387,122	123,789	-	510,911
Other assets	(25,765)	6,498	-	(19,267)
Available for sale investments	(33,092)	-	(342,789)	(375,881)
Amortization of PPE	-	(82,530)	-	(82,530)
Revaluation of PPE	(106,070)	5,893	-	(100,177)
Total deferred tax liability	164,927	(70,139)	(342,789)	(577,855)
Net deferred tax asset/(liability)	222,195	53,650	(342,789)	(66,944)

14 Cash and cash equivalents

In thousand Armenian drams	31 December 2017	31 December 2016
Cash on hand	7,036,940	7,677,430
Correspondent account with the CBA	54,978,114	52,081,824
Correspondent accounts with other banks	3,544,517	3,455,901
Deposits for less than 90 days	50,016,638	-
Total cash and cash equivalents	115,576,209	63,215,155

As at 31 December 2017 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 49,315,192 thousand (2016: 2% and 18% respectively). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As at 31 December 2017 the amounts of correspondent accounts with other banks in amounts of AMD 3,048,341 thousand (86%) were due from two commercial banks (2016: AMD 2,525,615 thousand (73%) due from two commercial banks).

Non-cash transactions performed by the Bank during 2017 are represented by:

- repayment of AMD 730,475 thousand loan by obtaining ownership on repossessed collateral (2016: AMD 715,342 thousand).

15 Amounts due from other financial institutions

In thousand Armenian drams	31 December 2017	31 December 2016
Deposited funds with CBA	120,000	220,000
Loans to financial institutions	6,357,818	4,259,099
Reverse repurchase agreements	4,124,618	1,011,762
Deposited funds with other non-resident financial institutions	2,356,848	1,848,371
Other accounts	1,077,438	1,193,045
Total amounts due from financial institutions	14,036,722	8,532,277

Loans and deposits are not impaired or overdue.

Deposited fund with the CBA is guarantee deposited placed by the Bank for its operations through ArCa payment system.

As at 31 December 2017 the “Loans to financial institutions” in amounts of AMD 3,670,154 thousand (58%) were concentrated in two financial institution (2016: AMD 2,164,097 thousand (51%) were concentrated in one financial institutions).

As at 31 December 2017 the “Deposited funds in other non-resident financial institutions” clause include guarantee amounts provided by the Bank for its operations through Master Card payment system in the amount of AMD 387,066 thousand (2016: AMD 380,656 thousand), as well as frozen deposit placed by the Bank for membership to Visa payment system in the amount of AMD 218,140 thousand (2016: AMD 218,068 thousand), frozen amount for the guarantee in the “BANK OF GEORGIA” in amount of AMD 1,669,330 thousand (2016: AMD 1,249,647 thousand).

16 Derivative financial instruments

In thousand Armenian drams	31 December 2017			31 December 2016		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Foreign exchange contracts						
Swaps – foreign currency	-	-	-	9,922,697	22,848	42,456
Total derivative financial instruments and other trading liabilities	-	-	-	9,922,697	22,848	42,456

17 Loans to customers

In thousand Armenian drams	31 December 2017	31 December 2016
Loans to customers	229,710,777	157,195,274
Factoring	1,568,526	1,603,508
Reverse repurchase agreements	20,847,485	22,150,334
Overdrafts and credit lines	112,074,523	79,275,169
Loans on credit cards	27,808,028	22,648,880
Guarantee payments	567,242	581,243
Financial leasing	-	58
	392,576,581	283,454,466
Less allowance for impairment	(10,029,568)	(7,527,829)
Total loans to customers	382,547,013	275,926,637

As of 31 December 2017 the average weighted effective interest rates on loans and advances to customers were 12.74% for loans in AMD (2016: 16.56%) and 7.25% for loans in USD and EUR (2016: 7.73%).

As of 31 December 2017 the Bank has acquired collateral pledged for extended loans. The carrying amount of these assets is AMD 3,716,481 thousand (2016: AMD 4,522,347 thousand) (see Note 21). The Bank has the intention to sell these assets in a short period of time.

As of 31 December 2017 the Bank had a concentration of loan portfolio represented by AMD 61,617,444 thousand (16% of the gross loan portfolio) (2016: AMD 60,691,027 thousand or 21% of gorr loan portfolio) with regard to 10 borrowers and parties related with them. Allowance of AMD 1,717,236 thousand was made against these loans (2016: AMD 1,213,821 thousand).

The fair value of securities pledged under reverse repurchase agreements, which were repledged in other organizations as securities pledged under repurchase agreements amounts to AMD 24,556,156 thousand as at 31 December 2017 (2016: AMD 21,489,072 thousand) (see Note 24).

Analysis of loans and advances to customers by industry sectors is presented below:

								2017
In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trade	Con-sumer	Mortgage	Other	Total
Loans	36,553,879	9,004,198	47,574,623	107,048,226	48,252,183	12,823,767	131,319,705	392,576,581
Less allowance for loan impairment	(365,539)	(134,091)	(1,971,627)	(2,447,372)	(3,489,053)	(208,379)	(1,413,507)	(10,029,568)
Net loans	36,188,340	8,870,107	45,602,996	104,600,854	44,763,130	12,615,388	129,906,198	382,547,013

								2016
In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trade	Con-sumer	Mortgage	Other	Total
Loans	27,231,314	8,967,585	28,724,052	80,899,045	42,278,155	13,172,461	82,181,854	283,454,466
Less allowance for loan impairment	(435,257)	(143,335)	(1,129,689)	(1,293,063)	(2,794,130)	(418,788)	(1,313,567)	(7,527,829)
Net loans	26,796,057	8,824,250	27,594,363	79,605,982	39,484,025	12,753,673	80,868,287	275,926,637

Reconciliation of allowance account for losses on loans and advances by class is as follows:

								2017
In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trade	Con-sumer	Mortgage	Other	Total
At 1 January 2017	435,257	143,335	1,129,689	1,293,063	2,794,130	418,788	1,313,567	7,527,829
Charge/(reversal) for the year	(26,241)	109,123	954,221	1,132,795	808,687	(35,691)	162,705	3,105,599
Amounts written off	(43,484)	(128,201)	(112,283)	(132,261)	(1,035,568)	(310,343)	(72,102)	(1,834,242)
Recovery	7	9,834	-	153,775	921,804	135,625	9,337	1,230,382
At 31 December 2017	365,539	134,091	1,971,627	2,447,372	3,489,053	208,379	1,413,507	10,029,568
Collective impairment	-	46,463	-	216,655	-	-	101,324	364,442
Individual impairment	365,539	87,628	1,971,627	2,230,717	3,489,053	208,379	1,312,183	9,665,126
	365,539	134,091	1,971,627	2,447,372	3,489,053	208,379	1,413,507	10,029,568
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	241,421	-	216,655	-	-	101,324	559,400

In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trade	Con-sumer	Mortgage	Other	Total
								2016
At 1 January 2016	422,946	160,469	769,931	1,578,921	1,836,060	360,513	997,173	6,126,013
Charge /(Reversal) for the year	15,540	(571,442)	1,522,183	1,112,318	1,880,853	185,669	457,599	4,602,720
Amounts written off	(21,931)	(171,991)	(1,162,914)	(1,569,974)	(1,664,041)	(249,144)	(415,744)	(5,255,739)
Recovery	18,702	726,299	489	171,798	741,258	121,750	274,539	2,054,835
At 31 December 2016	435,257	143,335	1,129,689	1,293,063	2,794,130	418,788	1,313,567	7,527,829
Collective impairment	-	-	-	-	-	-	330,399	330,399
Individual impairment	435,257	143,335	1,129,689	1,293,063	2,794,130	418,788	983,168	7,197,430
	435,257	143,335	1,129,689	1,293,063	2,794,130	418,788	1,313,567	7,527,829
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	-	-	-	-	-	3,586,658	3,586,658

Loans and advances by customer profile may be specified as follows:

In thousand Armenian drams	31 December 2017	31 December 2016
Individuals	61,043,321	55,606,677
Privately held companies	300,298,040	212,514,304
Sole proprietors	2,062,804	4,801,644
State owned enterprises	26,003,290	10,264,900
Non-profit organizations	3,169,126	266,941
	392,576,581	283,454,466
Less allowance for impairment	(10,029,568)	(7,527,829)
Total loans and advances to customers	382,547,013	275,926,637

Loans to individuals comprise the following products:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Mortgage	11,296,139	11,585,109
Credit cards	28,068,308	22,738,678
Consumer	8,552,332	6,532,202
Gold loans	11,553,484	12,887,120
Car	78,060	54,825
Other	1,494,998	1,808,743
Total loans and advances to individuals (gross)	61,043,321	55,606,677

The information on financial leasing is introduced below:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Gross investments on finance lease		
Up to 1 year	-	58
	-	58
Unearned future financial gains from finance lease	-	-
Net investments in finance lease	-	58

Impairment allowance for finance lease is included in the impairment allowance of loans and advances to customers and amount to AMD 29 thousand as at 31 December 2016.

Implied interest rate for finance lease is 19%.

At 31 December 2017 and at 31 December 2016 the estimated fair value of loans and advances to customers approximates it carrying value (Note 32).

Maturity analysis of loan portfolio is presented in Note 34.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

18 Investments available for sale

In thousand Armenian drams	31 December 2017	31 December 2016
Unquoted investments		
Equity instruments	13,935	14,034
Shares of Armenian companies	10,093	8,857
RA corporate bonds	1,582,346	146,912
Accrued interest	43,238	1,506
Total investments	1,649,612	171,309

All debt securities have fixed interest rates.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

All unquoted available-for-sale equity shares are recorded at cost since its fair value cannot be reliably estimated. There is no quoted market on these investments and the Bank intends to hold them for a long term.

Available for sale securities, including pledged securities by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2017		31 December 2016	
	%	Maturity	%	Maturity
RA corporate bonds	7.5-10.59	2018-2022	9.50-10.59%	2017-2019

A os 31 December 2017 available for sale debt securities at fair value in the amount of AMD 15,258,125 thousand (2016: AMD 14,178,041 thousand) were sold to third parties on reverse repurchase agreements for periods not exceeding one months. These securities were classified as securities pledged under repurchase agreements on the face of the balance sheet.

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Office equipment	Vehicles	Computers	Other fixed assets	Capital investments in leased assets	Total
Cost/Revalued amount							
At 1 January 2016	7,578,510	540,872	223,553	3,282,276	1,205,116	172,377	13,002,704
Additions	778,920	30,351	8,017	201,281	64,521	66,829	1,149,919
Disposals	-	(1,359)	-	(1,022)	(4,639)	(35,031)	(42,051)
Reclassifications	-	141	-	-	(141)	-	-
At 31 December 2016	8,357,430	570,005	231,570	3,482,535	1,264,857	204,175	14,110,572
Additions	31,783	42,783	73,398	361,485	319,557	96,861	925,867
Disposals	(221,941)	(130)	(87,949)	-	(632)	-	(310,652)
At 31 December 2017	8,167,272	612,658	217,019	3,844,020	1,583,782	301,036	14,725,787
Accumulated depreciation							
At January 1, 2016	580,601	429,486	153,103	2,129,651	733,117	23,829	4,049,787
Charge for the year	291,826	43,388	33,241	287,730	147,450	5,233	808,868
Disposals	-	(726)	-	(376)	(3,977)	-	(5,079)
At 31 December 2016	872,427	472,148	186,344	2,417,005	876,590	29,062	4,853,576
Charge for the year	301,400	30,751	22,608	322,137	136,185	6,778	819,859
Disposals	(3,402)	(111)	(82,531)	-	-	-	(86,044)
Adjustments	-	-	-	422	(422)	-	-
At 31 December 2017	1,170,425	502,788	126,421	2,739,564	1,012,353	35,840	5,587,391
Carrying value							
At 31 December 2016	7,485,003	97,857	45,226	1,065,530	388,267	175,113	9,256,996
At 31 December 2017	6,996,847	109,870	90,598	1,104,456	571,429	265,196	9,138,396

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser at 31 December 2013 using a combination of market, income and cost methods resulting in a revaluation of AMD 589,278 thousand. Management has based its estimate of the fair value of the buildings on the results of the independent appraisal.

Management believes that as of 31 December 2017 fair value of buildings does not differ significantly from its revalued amount.

If buildings were presented at the difference of cost and accumulated depreciation, the carrying amount would have been AMD 6,112,776 thousand as at 31 December 2017 (2016: AMD 6,599,017 thousand).

Fully depreciated items

As at 31 December 2017 fixed assets included fully depreciated assets at cost in the amount of AMD 128,232 thousand (2016: AMD 118,103 thousand).

Fixed assets in the phase of installation

As at 31 December 2017 fixed assets included assets in the phase of installation in the amount of AMD 751,911 thousand (2016: AMD 475,177 thousand).

Restrictions on title of fixed assets

As at 31 December 2017 the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2016: either).

Contractual commitments

As at 31 December 2017 the Bank has contractual commitments in amount of AMD 2,600,583 thousand in respect of purchased new head office of the Bank (2016: AMD 94,095 thousand) (Note 22).

20 Intangible assets

In thousand Armenian drams	Licenses	Computer software	Capital investments	Other	Total
Cost					
At 1 January 2016	1,827,089	257,253	4,847	75,239	2,164,428
Additions	518,140	6,771	-	60,567	585,478
Disposals	(6.652)	-	-	-	(6.652)
At 31 December 2016	2,338,577	264,024	4,847	135,806	2,743,254
Additions	435,770	5,000	-	-	440,770
Disposals	(4,174)	-	-	-	(4,174)
At 31 December 2017	2,770,173	269,024	4,847	135,806	3,179,850
Accumulated amortization					
At 1 January 2016	134,985	12,205	-	158	147,348
Amortisation charge	160,565	15,730	-	3,336	179,631
Disposals	(6,652)	-	-	-	(6,652)
At 31 December 2016	288,898	27,935	-	3,494	320,327
Amortisation charge	141,565	13,897	-	5,636	161,098
Disposals	(4,174)	-	-	-	(4,174)
At 31 December 2017	426,289	41,832	-	9,130	477,251
Carrying value					
At 31 December 2016	2,049,679	236,089	4,847	132,312	2,422,927
At 31 December 2017	2,343,884	227,192	4,847	126,676	2,702,599

Restrictions on intangible assets

As at 31 December 2017 the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted (2016: either).

Contractual commitments

As at 31 December 2017 the Bank has not any contractual commitment in respect of purchases of intangible assets (2016: AMD 41,625 thousand).

21 Repossessed assets

Details of non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as at December 31 are shown below:

In thousand Armenian drams	31 December 2017	31 December 2016
Property	3,594,959	3,764,206
Other assets	121,522	758,141
Total repossessed assets	3,716,481	4,522,347

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

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell

22 Other assets

In thousand Armenian drams	31 December 2017	31 December 2016
Debtors and other receivables	1,031,725	718,929
Total other financial assets	1,031,725	718,929
Prepayments	1,209,767	442,592
Due from staff	30	54
Paintings	47,050	47,050
Future period expenses	22,648	29,103
Precious metals	115,135	44,555
Materials	389,360	377,026
Other	89,501	108,187
Total other non-financial assets	1,873,491	1,048,567
Total other assets	2,905,216	1,767,496

Prepayments include the Bank's payments in amount of AMD 650,298 thousand, for the purchase of a new head office of the Bank.

23 Amounts due to other financial institutions

In thousand Armenian drams	31 December 2017	31 December 2016
Loans from financial institutions	38,585,043	28,814,598
Deposits from financial institutions	21,924,589	17,671,899
Current accounts of financial institutions	938,152	1,064,279
Correspondent accounts of other banks	708,760	1,329,584
Loans under repurchase agreements	13,847,877	33,947,096
Total amounts due to financial institutions	76,004,421	82,827,456

As at 31 December 2017 loans from financial institutions in amount of AMD 21,620,085 thousand (56%) were due from 1 financial institution (2016: AMD 12,627,202 thousand (44%) were due from 1 financial institution).

Loans and deposits from financial institutions have fixed interest rates.

As at 31 December 2017 the effective interest rates on amounts due to financial institutions was 8.82% for borrowings in AMD (2016: 8.92%) and 3.03% for borrowings in USD and EUR (2016: 7.89%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2016: nil).

24 Financial liabilities held for trading

In thousand Armenian drams	31 December 2017	31 December 2016
Repledged securities by repurchase agreements (refer to note 17)	24,556,156	21,489,072
Total financial liabilities held for trading	24,556,156	21,489,072

25 Amounts due to Government of the RA

In thousand Armenian drams	31 December 2017	31 December 2016
Current/Settlement accounts	89,421	365,540
Received loans	603,531	795,855
Total amounts due to Government of the RA	692,952	1,161,395

At 31 December 2017 loans received from the RA Government include loans received from “Rural finance facility-Project Implementation Unit State Institution” in the amount of AMD 462,856 thousand (2016: AMD 628,296 thousand) and “Millennium Challenge Account - Armenia” in the amount of AMD 21,184 thousand (2016: AMD 28,739 thousand), and within the scope of “Small and medium business loan project” of German-Armenian Fund in the amount of AMD 69,241 thousand (2016: AMD 86,605 thousand).

26 Amounts due to customers

In thousand Armenian drams	31 December 2017	31 December 2016
Corporate customers		
Current/Settlement accounts	66,460,012	36,203,765
Time deposits	50,957,236	26,612,345
	117,417,248	62,816,110
Individuals		
Current/Settlement accounts	22,614,470	15,002,349
Time deposits	258,935,430	182,302,603
	281,549,900	197,304,952
Total amounts due to customers	398,967,148	260,121,062

All customer deposits carry fixed interest rates.

As at 31 December 2017 included in current accounts of corporate and individual customers are deposits amounting to AMD 22,671,881 thousand (2016: AMD 17,911,300 thousand) held as security against letters of credit issued and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2017 the aggregate balance of top ten customers of the Bank (including relating parties, see Note 31) amounts to AMD 118,316,969 thousand (2016: AMD 62,124,642 thousand) or 29.7% of total customer accounts (2016: 23.9%).

As of 31 December 2017 the effective interest rates on amounts due to customers ranged from 0.08-16.04% for amounts attracted in AMD (2016: from 3.00% to 19.50%) and from 0.08-15.47% for amounts attracted in USD and EUR (2016: from 1.51-10.76%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2016: either).

27 Debt securities issued

In thousand Armenian drams	31 December 2017	31 December 2016
Non-current bonds	8,967,294	-
Total debt securities issued	8,967,294	-

During 2017 the Bank had issued 10,000 coupon bonds with face value of AMD 10,000 (14.0% annual interest rate) maturing till 2019.

During 2017 the Bank had issued 10,000 coupon bonds with face value of USD 100 (8.5% annual interest rate) maturing till 2019.

During 2017 the Bank had issued 172,000 coupon bonds with face value of USD 100 (7.5% annual interest rate) maturing till 2020.

The Bank's bonds are listed at "NASDAQ OMX Armenia" stock exchange.

The Bank has not repurchased any of its own bonds during the year.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

28 Other liabilities

In thousand Armenian drams	31 December 2017	31 December 2016
Accounts payables	456,041	338,017
Due to personnel	284,617	214,868
Total other financial liabilities	740,658	552,885
Tax payable, other than income tax	328,598	302,522
Future period revenue	587	373
Grants related to assets	1,709	1,791
Other operating liabilities	43	37
Other	129,881	51,673
Total other non-financial liabilities	460,818	356,396
Total other liabilities	1,201,476	909,281

Grants related to assets

In thousand Armenian drams	31 December 2017	31 December 2016
At January 1	1,791	1,873
Recognised as income	(82)	(82)
At December 31	1,709	1,791

29 Equity

As 31 December 2017 the Bank's registered and paid-in share capital was AMD 31,374,560 thousand (2016: AMD 31,374,560 thousand).

In accordance with the Bank's statues, the share capital consists of 41,120 ordinary shares, all of which have a par value of AMD 763 thousand each.

The only shareholder of the Bank as at 31 December 2017 and 2016 is Vitaliy Grigoryants.

As at 31 December 2017 the Bank did not possess any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

During 2017 and 2016 the Bank had not increased its share capital.

Distributable among shareholders reserves equal the amount of retained earnings calculated in accordance with the RA legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's net profit of the previous year reported in statutory books.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	31 December 2017	31 December 2016
Undrawn loan commitments	20,719,108	19,944,553
Letters of credit	1,279,062	156,016
Guarantees	35,968,014	32,179,463
Undrawn overdrafts	330,148	863,885
Total commitments and contingent liabilities	58,296,332	53,143,917

The maximum exposure to credit risk of Loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for premises.

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

In thousand Armenian drams	31 December 2017	31 December 2016
Not later than 1 year	41,412	24,248
Total operating lease commitments	41,412	24,248

Contractual commitments

Information on the Bank's contractual commitments is disclosed in Notes 19, 20.

Insurance

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

As at 31 December 2017, the Bank has insured the truthfulness of employees, Bank's buildings and constructions, transit, forged checks, securities and money, Bank's branches and their contents, computer fraud, responsibility of directors and management, as well as professional liability.

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

31 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is the resident of the Russian Federation Vitally Grigoriyants.

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

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

In thousand Armenian drams		2017		2016
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
tatement of financial position				
Amounts due from other financial institutions				
At 1 January	-	2,936,745	-	1,398,000
Increase	-	12,555,692	-	13,718,346
Decrease	-	(11,616,416)	-	(12,179,601)
At 31 December	-	3,876,021	-	2,936,745
Loans to customers				
Loans outstanding at 1 January gross	-	456,661	22,833	1,269,290
Loans issued during the year	2,099,780	8,357,320	365,572	1,098,865
Loan repayments during the year	(1,344,150)	(4,942,495)	(388,405)	(1,911,494)
Loans outstanding at 31 December gross	755,630	3,871,486	-	456,661
Less: allowance for loan impairment	(12,090)	(61,944)	-	(7,307)
Loans outstanding at 31 December	743,540	3,809,542	-	449,354

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Amounts due to financial institutions				
At 1 January	801,556	771,411	17,763	639,418
Increase	31,215,913	26,730,782	20,191,368	15,525,305
Decrease	(26,180,150)	(24,038,076)	(19,407,575)	(15,393,312)
At 31 December	5,837,319	3,464,117	801,556	771,411
Statement of profit or loss and other comprehensive income				
Interest income	25,131	298,647	916	226,739
Interest expense	247,209	596,047	(33,316)	(359,054)
Impairment (charge) /reversal	12,090	54,637	(229)	(5,386)

The loans issued to directors and other key management personnel (and close family members) are repayable over 1-15 years and have interest rates of 7-24% (2016: 7-24%, 1-15 years). The loans advanced to the directors are collateralised by gold, real estate, cash and other property.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and bonuses	313,601	319,417
Total key management compensation	313,601	319,417

32 Fair value measurement

The Bank's Board determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the investment committee after discussion with and approval by the Bank's audit committee.

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	115,576,209	-	-	115,576,209
Amounts due from financial institutions	-	14,036,722	-	-	14,036,722
Loans to customers	-	382,547,013	-	-	382,547,013
Other financial assets	-	1,031,725	-	-	1,031,725
Financial liabilities					
Amounts due to other financial institutions	-	76,004,421	-	-	76,004,421
Amounts due to the CBA	-	692,952	-	-	692,952
Amounts due to customers	-	398,967,148	-	-	398,967,148
Issued debt securities	-	8,967,294	-	-	8,967,294
Other financial liabilities	-	740,658	-	-	740,658

In thousand Armenian drams	31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	63,215,155	-	-	63,215,155
Amounts due from financial institutions	-	8,532,277	-	-	8,532,277
Loans to customers	-	275,926,637	-	-	275,926,637
Other financial assets	-	718,929	-	-	718,929
Financial liabilities					
Amounts due to financial institutions	-	82,827,456	-	-	82,827,456
Amounts due to RA Government	-	1,161,395	-	-	1,161,395
Amounts due to customers	-	260,121,062	-	-	260,121,062
Other financial liabilities	-	552,885	-	-	552,885

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5.0% to 24% per annum (2016: 6.0% to 24% per annum).

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

Due to customers

The fair value of deposits from customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**31 December 2017**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments available-for-sale	-	1,625,584	-	1,625,584
Securities pledged under repurchase agreements	-	15,258,125	-	15,258,125
Total	-	16,883,709	-	16,883,709
Financial liabilities				
Liabilities accounted at fair value through profit or loss	-	24,556,156	-	24,556,156
Total	-	24,556,156	-	24,556,156
Net fair value	-	(7,672,447)	-	(7,672,447)

In thousand Armenian drams				**31 December 2016**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	22,848	-	22,848
Investments available for sale	-	148,418	-	148,418
Securities pledged under repurchase agreements	-	35,667,112	-	35,667,112
Total	-	35,838,378	-	35,838,378
Financial liabilities				
Derivative financial liabilities	-	42,456	-	42,456
Liabilities accounted at fair value through profit or loss	-	21,489,072	-	21,489,072
Total	-	21,531,528	-	21,531,528
Net fair value	-	14,306,850	-	14,306,850

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

Unquoted RA equity securities

The fair value of Bank's investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment].

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams				31 December 2017
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Buildings	*-*	*-*	*8,167,272*	*8,167,272*
Net fair value	-	-	8,167,272	8,167,272

In thousand Armenian drams				31 December 2016
	Level 1	Level 2	Level 3	Total
Non-financial liabilities				
Buildings	*-*	*-*	*8,357,430*	*8,357,430*
Net fair value	-	-	8,357,430	8,357,430

Fair value measurements in Level 3

The Bank's non-financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

The non-financial assets within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	2017
	Fixed assets
Non-financial assets	
Balance as at 1 January, 2017	8,357,430
Purchases	31,783
Disposal	(221,941)
Balance as at 31 December, 2017	8,167,272
Net fair value	8,167,272

In thousand Armenian drams	2016
	Fixed assets
Non-financial assets	
Balance as at 1 January, 2016	7,578,510
Purchases	778,920
Balance as at 31 December, 2016	8,357,430
Net fair value	8,357,430

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

The appraisal was carried out using comparative and income approaches that reflect observed prices for recent market transactions for similar properties and includes adjustments related to abovementioned land factors, including plot size, location, pledging and current use, etc.

The land and buildings were re-valued on 31 December 2013.

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

33 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

In thousand Armenian drams	31 December 2017					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Loans under repurchase agreements (Note 15, 17)	24,972,103	-	24,972,103	(24,972,103)	-	-
Financial liabilities						
Amounts due to other financial institutions (Note 23)	(13,847,877)	-	(13,847,877)	15,258,125	-	1,410,248

In thousand Armenian drams				31 December 2016		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Securities pledged under repurchase agreements (Note 17)	22,150,334	-	22,150,334	(21,489,072)	-	661,262
Financial liabilities						
Amounts due to other financial institutions (Note 23)	(33,947,096)	-	(33,947,096)	35,667,112	-	1,720,016

34 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams							31 December 2017
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	115,576,209	-	115,576,209	-	-	-	115,576,209
Amounts due from other financial institutions	8,462,159	2,058,935	10,521,094	3,515,628	-	3,515,628	14,036,722
Loans to customers	67,230,983	68,557,836	135,788,819	169,194,795	77,563,399	246,758,194	382,547,013
Investments available for sale	-	527,338	527,338	1,098,246	24,028	1,122,274	1,649,612
Securities pledged under repurchase agreements	15,258,125	-	15,258,125	-	-	-	15,258,125
Other financial assets	1,031,725	-	1,031,725	-	-	-	1,031,725
	207,559,201	71,144,109	278,703,310	173,808,669	77,587,427	251,396,096	530,099,406
Liabilities							
Amounts due to financial institutions	29,109,967	4,059,734	33,169,701	22,569,720	20,265,000	42,834,720	76,004,421
Financial liabilities held for trading	24,556,156	-	24,556,156	-	-	-	24,556,156
Amounts due to RA Government	692,952	-	692,952	-	-	-	692,952
Amounts due to customers	112,531,153	193,355,576	305,886,729	91,305,186	1,775,233	93,080,419	398,967,148
Debt securities issued	10,828	45,846	56,674	8,910,620	-	8,910,620	8,967,294
Other financial liabilities	740,658	-	740,658	-	-	-	740,658
	167,641,714	197,461,156	365,102,870	122,785,526	22,040,233	144,825,759	509,928,629
Net position	39,917,487	(126,317,047)	(86,399,560)	51,023,143	55,547,194	106,570,337	20,170,777
Accumulated gap	39,917,487	(86,399,560)		(35,376,417)	20,170,777		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							31 December 2016
Assets							
Cash and cash equivalents	63,215,155	-	63,215,155	-	-	-	63,215,155
Amounts due from financial institutions	4,503,908	1,011,762	5,515,670	948,280	2,068,327	3,016,607	8,532,277
Derivative financial assets	22,848	-	22,848	-	-	-	22,848
Loans to customers	77,828,200	63,581,541	141,409,741	53,144,367	81,372,529	134,516,896	275,926,637
Investments available for sale	-	49,900	49,900	98,518	22,891	121,409	171,309
Securities pledged under repurchase agreements	35,667,112	-	35,667,112	-	-	-	35,667,112
Other financial assets	718,929	-	718,929	-	-	-	718,929
	181,956,152	64,643,203	246,599,355	54,191,165	83,463,747	137,654,912	384,254,267
Liabilities							
Derivative financial liabilities	42,456	-	42,456	-	-	-	42,456
Amounts due to other financial institutions	44,772,358	14,187,579	58,959,937	18,228,935	5,638,584	23,867,519	82,827,456
Financial liabilities held for trading	21,489,072	-	21,489,072	-	-	-	21,489,072
Amounts due RA Government	374,240	240,846	615,086	213,004	333,305	546,309	1,161,395
Amounts due to customers	69,083,636	146,237,392	215,321,028	43,198,955	1,601,079	44,800,034	260,121,062
Other financial liabilities	552,885	-	552,885	-	-	-	552,885
	136,314,647	160,665,817	296,980,464	61,640,894	7,572,968	69,213,862	366,194,326
Net position							
	45,641,505	(96,022,614)	(50,381,109)	(7,449,729)	75,890,779	68,441,050	18,059,941
Accumulated gap							
	45,641,505	(50,381,109)		(57,830,838)	18,059,941		

35 Risk management

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

The risk management procedure is organized in compliance with the Bank's mission, principal and interim goals and is aimed at the improvement of the financial position of the Bank and the Bank's reputation.

The main goals of risk management policy of the Bank is to disclose, assess and make manageable all possible risks that relate immediately to the Bank's activity, help the Bank's management make optimal decisions, assist in realistic planning of the Bank's strategy, taking into account the principles of risk/profitability ratio by taking up manageable risks, determining preferable sectors of resource allocation, providing the maintenance of ratios set forth by the CBA, as well as interbank ratios of the Bank.

The Risk management policy of the Bank arises from the following main principles:

- ✓ The risk management must be mitigating and justified

- ✓ Risks must be fully disclosed, objectively assessed and efficiently managed

- ✓ When reacting to disclosed risks the risk management/supervision expenses and consequences of undesired cases must be weighed against gains expected as a result of risk mitigation

- ✓ Risk management may include such approaches as procedures aimed at risk mitigation, risk transfer to third parties, for example, through insurance, and risk acceptance, when risk mitigation expenses exceed assessed losses or their mitigation is actually impossible. For this purpose, accepted level of risk is determined.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Bank's risk management policy allows to efficiently manage risks relating to assets and liabilities of the Bank and Bank's customers through exclusion and minimization of losses caused by risks by providing acceptable level of profitability, liquidity and solvency

The risk management in the Bank is carried out through limits set forth by all business processes, internal legal acts regulating the activity of the latter, all procedures and operations in a precise and documented manner.

Risk management structure

The Board of the Bank, the Chair of the Executive Board, the Executive Board and the Management of the Bank within the frames of their responsibilities set forth by RA legislation and internal legal acts of the Bank are responsible for the formation, viability and efficiency of proper Risk management system in the Bank; however, there are separate independent bodies responsible for managing and monitoring risks.

Risk management committee and Risk management and planning department

The Risk management committee and risk management and planning departments are responsible for carrying out risk management policy of the Bank.

The risk management and planning department continually supervise risk levels assumed by the Bank and the maintenance of limits relating to these risks, the possible effect of risks on the Bank's activity are assessed through different stress-tests.

Reports, analysis and proposals concerning risks relating to the Bank's activity are presented by the Risk management and planning department (as well as other beneficiary departments) are discussed in Risk management committee meetings and presented to the Executive Board of the Bank with the purpose of making appropriate decision.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and presents his/her conclusions and suggestions to the Board of the Bank.

Risk characterization and assessment

Depending on a variety of factors the Bank finds it expedient to divide banking risks into external and internal risks.

External risks are country, price, competitive and force major risks.

Internal risks are credit, liquidity, interest rate, foreign currency, operating, personnel and money laundering risks.

Country risk

Country risk is managed by the Bank using rankings assigned by international rating agencies (Moody's, S&P, Fitch) to international banks and institutions. Risk management department performs periodic monitoring of ratings of foreign banks who are counteragents of the Bank.

Price risk

Possible minimum level of price risks is provided within the frames of the following measures: analysis of financial market structural, volume and price index dynamics, analysis of liquidity of separate financial instruments, disclosure of present tendencies, assessment of possible losses through stress tests on monthly basis, determination of financial instruments' limit (by the type of operation with securities, dealer, issuer).

Competitive risk

Management of competitive risk in the Bank is performed by business departments and Marketing analysis department, through periodic comparison of variety of services and terms offered by the Bank and other banks.

Force major risk

The Bank has server reserve center at its disposal according to the requirement of ISO 27001-2005. The location of the centre outside the head office of the Bank, in a remote place, will allow providing the Bank's activity in force major situation.

Credit risk

The main issue of management of credit risks for the Bank is timely disclosure of credit risks, assessment and taking appropriate measures for their reduction.

The credit risk in the Bank is assessed not only for each borrower, but also for the loan portfolio in full. According to appropriate methodology elaborated by the Bank the potential solvency of the borrower is assessed before extension of the loan. From the perspective of mitigation of credit risk, the security and expediency of the loan are given significant importance. After loan extension, over the full term of the credit contract, credit monitoring is performed by the Bank for periodically assessing the solvency and security of the loans and taking appropriate measures for mitigating possible credit risks. The Bank's loan portfolio is periodically analyzed by economic sectors, customers and loan types for providing diversification and quality of the loan portfolio.

The activity of the Loan committee is significant in mitigation of credit risk. Loan committee is the body executing loan policy of the Bank, whose purpose is the management of loan policy and formation of quality loan portfolio. The main issue of the Credit committee is to make professional protocol or final decision concerning execution and servicing of instruments exposed to credit risk.

Liquidity risk

The liquidity management purpose in the Bank is to create a volume of such financial means, which would enable to satisfy legal cash requirements of all kinds of creditors, depositors and other clients without serious issues, which may be reflected in the Bank's balance and off-balance sheet articles, as well as provide maximum level of profitability along with all these factors.

Management of assets and liabilities by mutual agreement is carried out in the Bank for providing fluent liquidity and efficient liquidity risk management by providing:

- ✓ Providing existence of highly liquid assets
- ✓ Stability of resources
- ✓ Acceptable limits of maturity gaps of assets and liabilities
- ✓ Opportunities for attracting means from external sources

With the purpose of making correct decision regarding liquidity management of the Bank the maturity analysis of assets and liabilities is given great importance, which is performed by the calculation model of maturity gaps (GAP) by demand and accumulated separations. Demand liquidity is calculated on daily basis for making correct circumstances decision.

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Relevant reports and analysis are periodically presented to the Executive Board of the Bank.

Credit risk in the Bank is managed according to the Bank's lending policy and the field is regulated by other internal legal acts. The risk management executive body performs monitoring of loan portfolio on daily basis, loan portfolio dynamics calculation based on constructed series and analysis of quality of portfolio by products and branches, based on which forecasting of quality indexes of loan portfolio are performed. The risk management executive body performs loan monitoring of several loan types by the approved procedure, and when necessity arises, monitoring of other loans based on deterioration of the financial position of the borrower. Loans extended by the Bank are approved by the risk executive body according to internal legal acts by reducing credit risk.

As at 31 December 2017 and 2016 the carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

35.1.1 Risk concentrations

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2017 and 2016.

In thousand Armenian drams	Armenia	OECD countries	Other non-OECD countries	Total
Cash and cash equivalents	112,041,633	1,759,814	1,774,762	115,576,209
Amounts due from other financial institutions	8,840,016	1,278,210	3,918,496	14,036,722
Loans to customers	337,208,043	776,099	44,562,871	382,547,013
Investments available for sale	1,634,442	15,170	-	1,649,612
Securities pledged under repurchase agreements	15,258,125	-	-	15,258,125
Other financial assets	1,029,382	173	2,170	1,031,725
As of 31 December 2017	476,011,641	3,829,466	50,258,299	530,099,406
As of 31 December 2016	320,854,509	6,614,099	56,785,659	384,254,267

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Industry	Agricul-ture	Construc-tion	Trading	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	115,576,209	-	-	-	-	-	-	-	115,576,209
Amounts due from financial institutions	14,036,722	-	-	-	-	-	-	-	14,036,722
Loans to customers	-	36,188,340	8,870,107	45,602,996	104,600,854	44,763,130	12,615,388	129,906,198	382,547,013
Investments available for sale	123,480	-	-	-	-	-	-	1,526,132	1,649,612
Securities pledged under repurchase agreements	13,773,594	-	-	-	-	-	-	1,484,531	15,258,125
Other financial assets	-	-	-	-	-	-	-	1,031,725	1,031,725
As of 31 December 2017	143,510,005	36,188,340	8,870,107	45,602,996	104,600,854	44,763,130	12,615,388	133,948,586	530,099,406
As of 31 December 2016	72,721,351	26,508,120	8,729,429	27,961,214	78,750,572	41,155,355	12,822,634	115,605,592	384,254,267

35.1.2 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved, in line with changes in Bank's operating environment, not less than annually, by the Board of Directors.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**31 December 2017**	**31 December 2016**
Loans collateralized by real estate	118,308,308	80,849,103
Loans collateralized by gold	12,044,262	13,663,933
Loans collateralized by securities	24,056,087	32,075,100
Loans collateralized by guarantees of other organizations	80,739,367	55,788,437
Loans collateralized by vehicles	176,238	60,918
Loans collateralized by cash	22,671,881	48,383,619
Loans collateralized by stock	7,093,332	4,895,941
Other collateral	127,487,106	47,737,415
Total loans and advances to customers (gross)	392,576,581	283,454,466

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

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

35.1.3 Impairment and provisioning policies

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	31 December 2017	31 December 2016
Loans to customers		
Industry	1.0%	3.9%
Agriculture	1.0%	3.9%
Construction	4.1%	3.9%
Trading	2.1%	6.6%
Consumer	7.2%	6.6%
Mortgage	1.6%	3.2%
Other	1.0%	-

As of 31 December 2017 and 31 December 2016 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

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

In thousand Armenian drams					31 December 2017
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers					
Industry	-	-	-	7,407,299	7,407,299
Agriculture	14,341	6,974	7,447	18,849	47,611
Construction	-	34,126	-	1,418,233	1,452,359
Trading	-	2,761	811	163,061	166,633
Consumer	747,176	213,831	204,191	2,255,345	3,420,543
Mortgage	64,157	49,020	49,109	82,218	244,504
Other	-	643	97	8,396,677	8,397,417
Total	825,674	307,355	261,655	19,741,682	21,136,366

In thousand Armenian drams					31 December 2016
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers					
Industry	-	-	-	8,829,724	8,829,724
Agriculture	-	-	-	351,830	351,830
Construction	123,448	-	-	1,618,024	1,741,472
Trading	-	94,228	-	3,666,572	3,760,800
Consumer	1,432	163,891	-	1,907,149	2,072,472
Mortgage	-	-	-	314,723	314,723
Other	-	-	1,268,650	3,376,174	4,644,824
Total	124,880	258,119	1,268,650	20,064,196	21,715,844

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

35.2.1 Market risk – Trading

For calculating the risk of securities held for sale the Bank applies interest risk calculation methods and approaches of Basel 2. According to those, the interest rate risk is set as the total of special and general risks of interest rate.

For the purpose of calculating interest rate risk debt security positions are calculated based on below mentioned principles for collective debt securities. Debt securities participating in the calculation of same positions must:

- Be issued by the same person, and
- Be reflected in the same currency,
- Have the same profitability, or difference between profitability must not exceed 0.2

Calculation of special risk of interest rate

For the purpose of calculation of special risk of interest rate calculation of positions of debt securities is performed. After the calculation of positions, gross position of debt securities is calculated. For including debt securities at differentiated weights in the calculation of gross position, those are classified into the following categories:

- State debt securities,
- positive debt securities
- other debt securities.

Calculation of general risk of interest rate

For the purpose of calculation of general risk of interest rate calculation of positions of debt securities is performed as well. Moreover, gross net position of debt securities is calculated as the difference of total sum of long positions of debt securities and short positions (absolute value). After the calculation of positions of debt securities the long and short positions of debt securities are allocated during the periods until repayment in appropriate weights. For each period till maturity the minimum position of debt securities is the minimal value of total sum of all long positions and total sum of all short positions (absolute value). Depending on the maturity all securities are divided into appropriate zones.

The general risk of the interest rate of the set date is the total sum of below mentioned values.

- 10% of minimal position of each period until maturity,
- 40% of minimal position of first zone,
- 30% of minimal position of second zone,
- 30% of minimal position of third zone,
- 40% of minimal position between first and second zones,
- 40% of minimal position between second and third zones
- 150% of minimal position between third and fourth zones,
- 100% of gross net position of debt securities

On days, when the Bank's balance sheet has not incurred changes (including non-working days), the previous day data are included in the calculation of daily data

35.2.2 Market risk – Non-trading

Interest rate risk

The interest rate risk management issue in the Bank is to maintain the target level of interest rate spread and net interest margin of assets and liabilities. For the purpose of mitigating interest rate risk specially elaborated mechanisms of price formation (interest rate determination) for assets and liabilities are in place.

The model of calculation of maturity gap of interest rate sensitive assets and interest rate sensitive liabilities is the base of assessment of interest rate risk, which allows estimating the effect of interest rate change on the Bank's expected net interest income. The interest rate risk in the Bank is assessed using duration model which indicates the economic value change of equity as a result of interest rate change taking into account the incompliance of maturities of attracted liabilities and allocated assets.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank manages currency risk using standard and VaR methodologies. Foreign currency rates are monitored on daily basis, based on which forecasting of foreign currency rates is performed at the end of the month for the following month. The Executive board has established limits for foreign currency positions.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2017			31 December 2016		
Currency	Change in basis points	Sensitivity of net interest income	Effect on equity	Change in basis points	Sensitivity of net interest income	Effect on equity
USD	+5	(114,650)	(114,650)	+5	(484,077)	(484,077)
USD	-5	114,650	114,650	-5	484,077	484,077
EUR	+8	(11,281)	(11,281)	+8	(365,351)	(365,351)
EUR	-8	11,281	11,281	-8	365,351	365,351

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

In thousand Armenian drams				2017
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	96,833,235	17,211,440	1,531,534	115,576,209
Amounts due from financial institutions	7,070,168	3,084,691	3,881,863	14,036,722
Loans to customers	153,893,699	226,877,347	1,775,967	382,547,013
Investments available for sale	1,155,573	494,039	-	1,649,612
Securities pledged under repurchase agreements	15,258,125	-	-	15,258,125
Other financial assets	967,995	62,928	802	1,031,725
Total	275,178,795	247,730,445	7,190,166	530,099,406
Liabilities				
Amounts due to other financial institutions	64,908,247	10,800,521	295,653	76,004,421
Financial liabilities held for trading	24,556,156	-	-	24,556,156
Amounts due to RA Government	571,114	121,838	-	692,952
Amounts due to customers	161,686,772	230,343,524	6,936,852	398,967,148
Debt securities issued	102,784	8,864,510	-	8,967,294
Other financial liabilities	675,466	65,192	-	740,658
Total	252,500,539	250,195,585	7,232,505	509,928,629
Net position as of 31 December 2017	22,678,256	(2,465,140)	(42,339)	20,170,777
Commitments and contingent liabilities as of 31 December 2017	21,390,294	36,203,168	702,870	58,296,332
Total financial assets	200,540,677	179,999,326	3,691,416	384,231,419
Total financial liabilities	175,122,902	187,751,265	3,277,703	366,151,870
Total effect of derivative financial instruments	(19,608)	-	-	(19,608)
Net position as of 31 December 2016	25,398,167	(7,751,939)	413,713	18,059,941
Commitments and contingent liabilities As of 31 December 2016	20,985,161	30,988,239	1,170,517	53,143,917

Freely convertible currencies represent mainly US dollar and Euro amounts. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency (see note 14). The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

	Not audited	
As of 31 December, these ratios were as follows:	**2017, %**	**2016, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	25.27	17.10
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	132.18	120.47

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. See note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams					**31 December 2017**
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Amounts due to financial institutions	43,112,888	8,699,426	15,691,735	30,453,111	97,957,160
Financial liabilities held for trading	24,556,156	-	-	-	24,556,156
Amounts due to RA Government	89,866	16,208	318,091	328,140	752,305
Amounts due to customers	112,052,008	203,184,796	107,309,388	3,714,885	426,261,077
Debt securities issued	598,265	8,480,504	-	-	9,078,769
Other financial liabilities	740,658	-	-	-	740,658
Total undiscounted non-derivative financial liabilities	181,149,841	220,380,934	123,319,214	34,496,136	559,346,125
Credit risk commitments	1,333,544	20,713,006	31,861,591	4,388,191	58,296,332

In thousand Armenian drams	31 December 2016				
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
NON-DERIVATIVE FINANCIAL LIABILITIES					
Amounts due to financial institutions	44,772,358	14,187,579	18,228,935	22,071,039	99,259,911
Financial liabilities held for trading	21,489,072	-	-	-	21,489,072
Amounts due to RA Government	374,492	322,818	588,618	775,921	2,061,849
Amounts due to customers	85,658,468	297,962,861	91,346,851	7,544,864	482,513,044
Other financial liabilities	552,885	-	-	-	552,885
Total undiscounted non-derivative financial liabilities	152,847,275	312,473,258	110,164,404	30,391,824	605,876,761
DERIVATIVE FINANCIAL LIABILITIES					
Foreign exchange swap contracts					
Inflow	9,922,697	-	-	-	9,922,697
Outflow	(9,959,875)	-	-	-	(9,959,875)
Credit risk commitments	1,371,802	19,146,359	23,294,120	9,331,636	53,143,917

The Bank has attracted means in significant amounts from shareholders and related parties. Any significant repayment of these amounts may negatively affect the Bank's activity. The Management of the Bank is assured that the present level of financing will be maintained in the visible future and in the case of repayment of means it will be informed in advance, which will allow the Bank cash its liquid means and repay the debt.

35.4 Operational risk

Operational the management of operational risk the appropriate internal control mechanisms are implemented in the working processes, operations and functions of the Bank. In order to avoid operational risk the execution of operations at least by the principle of "two persons" in the key positions, definition of procedures in a written form, the clear separation of authorities of employees and written approval of work responsibilities are of high importance in the Bank. The latter's maintenance is also the requirement of the ISO 9001:2008 quality control international standard, therefore, in regulations of all structural and regional departments of the Bank the work description of each work place, employee rights, duties and responsibilities are clearly defined.

From the perspective of operational risks, proper provision of uninterrupted work of information technologies is given significant importance.

Personnel risk

Personnel risk is managed by the Human resources management department and Training centre. The HRM periodically performs observation of positions offered in RA banking system and relevant terms, and the Training centre organizes trainings aimed at development of professional knowledge of employees at the expense of internal and external resources.

Money laundering risk

Money laundering risk management is performed by internal observations department, which operates in compliance with requirements of internal legal acts of the Bank and money laundering legislation.

36 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	31 December 2017		
	Loans from financial organizations	Debt securities issued	Total
As of 1 January 2017	28,814,598	-	28,814,598
Cash-flows	*9,829,539*	*8,853,026*	*18,682,565*
Payments	(18,289,846)	(137,603)	(18,427,449)
Proceeds	28,119,385	8,990,629	37,110,014
Non-cash	*(59,094)*	*114,268*	*55,174*
Foreign exchange gain	(59,094)	114,268	55,174
As of 31 December 2017	38,585,043	8,967,294	47,552,337

37 Capital adequacy

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

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

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

As of 31 December 2017 and 2016 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	31 December 2017	31 December 2016
Tier 1 capital	30,170,167	28,212,125
Tier 2 capital	2,620,145	1,978,584
Total regulatory capital	32,790,312	30,190,709
Risk-weighted assets	242,891,200	249,821,516
Capital adequacy ratio	13.50%	12.08%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2014 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the Bank and new banks, as at 1 January 2017 and after that period.

38 Events after the reporting period

Since 13 April, 2018 the political situation in the Republic of Armenia is unstable due to mass demonstrations of inhabitants in Armenia against the ruling political party. These demonstrations are performed through civil disobedience by blocking streets, bridges and other infrastructure. Management believes that these processes are temporary in Armenia and will not have any significant impact on the Bank’s operations and accordingly, management believes that there is no need to make any adjustments to the Bank’s financial statements as of and for the year ended 31 December 2017 in relation to this political instability.