ARMECONOMBANK
OPEN JOINT STOCK COMPANY

Financial Statements and Independent Auditor's Report
for the Year Ended December 31, 2017

Armeconombank OJSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of Armeconombank Open Joint Stock Company (the "Bank") at December 31, 2017, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2017 were approved by management on April 27, 2018.

On behalf of the Management:

Aram Khachatryan	**Michael Poghosyan**
Executive Director	Financial Director/Chief Accountant

April 27, 2018
Yerevan, Republic of Armenia

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INDEPENDENT AUDITOR'S REPORT

To Shareholders and the Board of Directors of Armeconombank OJSC:

Opinion

We have audited the financial statements of Armeconombank OJSC (the "Bank"), which comprise the statement of financial position as at December 31, 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 present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Credit risk and impairment of loans to customers The loans to customers amounts to AMD 104,216,558 thousand as of December 31, 2017. Impairment allowance on loans is calculated on a collective basis for the portfolios of loans of a similar nature and on an individual basis for significant loans. Collective impairment allowances are calculated based on migration models which incorporate historical collection rates as well as the impact of current economic and credit conditions on large portfolios of loans. The inputs to these models are subject to management's judgement. For specific impairments, the judgement is required to determine when an impairment event occurred and how to estimate the expected future cash flows related to that loan. Due to the materiality of loan balances and the subjective nature of impairment assessment, this matter was determined to be a key audit matter. Refer to Note 3 and Note 15.	The following procedures were performed: • We tested the design, implementation and operating effectiveness of key controls over loans approval, administration and monitoring processes, as well as processes to identify, assess and record loan impairment provisions. • We tested the calculations of probability of defaults estimated by the Bank based on the data on migration of sums throughout delinquency buckets during the period from December 2014 to November 2017. Testing included calculation of weighted average monthly roll rates (frequencies of loans at each bucket to shift to the bucket of more than 180 days past due) and sums at each bucket. • We assessed the portfolio loan loss provisioning models by reviewing migrations of loans within the buckets of overdue days. We also tested a sample of the input data, including overdue days used in the migration. • We assessed whether the modelling assumptions included all relevant risks, and whether the additional adjustments to reflect un-modelled risks were necessary. Where we believed that a different assumption or input should be used, we recalculated the provision on that basis and compared the results with those of the management's for indications of management's bias. • We checked the adequacy and completeness of disclosures.

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 scepticism 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.

Srbuhi Hakobyan
Executive Director

Arpine Ghevondyan
Audit Director

April 27, 2018
Yerevan, Republic of Armenia

Deloitte Armenia cjsc

Armeconombank OJSC

Statement of Financial Position at December 31, 2017
In thousands of Armenian Drams, unless otherwise stated

	Notes	December 31, 2017	December 31, 2016
Assets:			
Cash and cash equivalents	13	35,824,831	32,059,829
Financial assets at fair value through profit or loss	25	-	1,676
Due from financial institutions	14	13,036,368	8,253,897
Reverse repurchase agreements	17	4,296,862	4,552,427
Loans and advances to customers	15	104,216,558	75,047,659
Available-for-sale financial assets	16,17		
- Held by the Bank		2,036,091	2,879,255
- Pledged under repurchase agreements		19,619,097	13,169,605
Held to maturity financial assets		49,618	-
Income tax prepayment		-	38,826
Property and equipment	18	9,304,697	8,437,062
Intangible assets	19	321,118	231,262
Other assets	20	2,097,559	1,510,860
Total assets		**190,802,799**	**146,182,358**
Liabilities and equity			
Liabilities:			
Financial liabilities at fair value through profit or loss	25	7,706	-
Debt securities issued	29	1,068,764	-
Repurchase agreements	17	20,511,989	13,224,755
Loans from CBA and Government of Republic of Armenia	21	4,411,627	2,989,000
Amounts due to financial institutions	22	14,822,737	14,006,062
Loans and deposits from international financial institutions	23	20,296,754	14,087,891
Amounts due to customers	24	91,703,898	66,795,292
Income tax payable		373,239	-
Deferred tax liabilities	12	1,096,006	1,025,222
Subordinated loans	26	6,409,601	5,400,172
Other liabilities	27	1,071,870	1,084,546
Total liabilities		**161,774,191**	**118,612,940**
Equity:			
Share capital	28	13,708,745	4,631,333
Share premium	28	33,438	9,110,850
Revaluation surplus	18	3,157,777	3,264,437
General reserve	28	6,000,000	6,000,000
Other reserves		1,531,277	1,251,977
Retained earnings		4,597,371	3,310,821
Total equity		**29,028,608**	**27,569,418**
Total liabilities and equity		**190,802,799**	**146,182,358**

The financial statements were signed on April 27, 2018 by management.

Aram Khachatryan
Executive Director

Michael Poghosyan
Financial Director/Chief Account

April 27, 2018
Yerevan, Republic of Armenia

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended December 31, 2017

In thousands of Armenian Drams, unless otherwise stated

	Notes	2017	2016
Interest income	5	14,121,975	11,359,949
Interest expense	5	(7,281,637)	(5,856,079)
Net interest income before impairment losses on interest bearing assets		**6,840,338**	**5,503,870**
Impairment losses on interest bearing assets	9	(155,678)	(564,262)
Net interest income		**6,684,660**	**4,939,608**
Net (loss)/ gain on financial assets and liabilities at fair value through profit or loss		(231,661)	12,582
Net gain from trading in foreign currencies	7	1,046,286	601,945
Fees and commission income	6	2,040,668	1,479,985
Fees and commission expenses	6	(391,986)	(365,689)
Net gain on available for sale financial assets		533,283	330,885
Other income	8	478,068	540,513
Net non-interest income		**3,474,658**	**2,600,221**
Operating income		**10,159,318**	**7,539,829**
Staff costs	10	(3,815,344)	(3,511,314)
Depreciation of property and equipment	18	(575,634)	(484,897)
Amortization of intangible assets	19	(38,902)	(20,694)
Other expenses	11	(3,693,782)	(2,750,562)
Impairment recovery on other assets	21	-	3,550
Operating expenses		**(8,123,662)**	**(6,763,917)**
Profit before income tax		**2,035,656**	**775,912**
Income tax expense	12	(485,259)	(185,541)
Profit for the year		**1,550,397**	**590,371**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property and plant			
Income tax related to revaluation		**-**	**4,137,161**
Items that may be reclassified subsequently to profit or loss:		**-**	**(827,432)**
Net gain for the year on revaluation of available-for-sale financial assets		912,045	1,895,215
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year		(563,536)	(209,881)
Income tax related to available for sale assets		(69,209)	(337,061)
Share of other comprehensive income of associate			
Net loss for the year on revaluation of available-for-sale financial assets, net of income tax		-	-
Total other comprehensive income for the year, net of income tax		**279,300**	**4,658,001**
Total comprehensive income for the year		**1,829,697**	**5,248,372**
Earnings per share			
Basic		0.84	0.32
Diluted		0.84	0.32

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Statement of Changes in Equity for the Year Ended December 31, 2017
In thousands of Armenian Drams, unless otherwise stated

	Notes	Share capital	Advances received for shares to be issued	Share premium	General reserve	Property revaluation reserve	Available-for-sale reserve	Retained earnings	Total equity
Balance at January 1, 2016		**2,333,338**	**4,001,688**	**-**	**6,000,000**	-	**(96,295)**	**2,761,345**	**15,000,076**
Profit for the year		-	-	-	-	-	-	590,371	**590,371**
Other comprehensive income for the year									
Other comprehensive income for the year, after income tax		-	-	-	-	3,309,729	1,348,272	-	**4,658,001**
Total other comprehensive income for the year		**-**	**-**	**-**	**-**	**3,309,729**	**1,348,272**	**-**	**4,658,001**
Transfer of revaluation reserve depreciation, net of tax in the amount of 11,313		-	-	-	-	(45,292)	-	45,292	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**3,264,437**	**1,348,272**	**635,663**	**5,248,372**
Dividends declared		-	-	-	-	-	-	(443,023)	**(443,023)**
Issue of ordinary shares		1,195,030	(4,001,688)	4,919,583	-	-	-	-	**2,112,925**
Acquisition through merger (Note 30)		1,102,965	-	4,191,267	-	-	-	356,836	**5,651,068**
Balance at December 31, 2016		**4,631,333**	**-**	**9,110,850**	**6,000,000**	**3,264,437**	**1,251,977**	**3,310,821**	**27,569,418**
Profit for the year		-	-	-	-	-	-	**1,550,397**	**1,550,397**
Other comprehensive income for the year									
Other comprehensive income for the year, after income tax		-	-	-	-	-	279,300	-	**279,300**
Total other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**279,300**	**-**	**279,300**
Transfer of revaluation reserve depreciation, net of tax in the amount of 26,910		-	-	-	-	**(106,660)**	-	**106,660**	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(106,660)**	**279,300**	**1,657,057**	**1,829,697**
Dividends declared		-	-	-	-	-	-	**(370,507)**	**(370,507)**
Share premium transfer to the share capital		**9,077,412**	-	**(9,077,412)**	-	-	-	-	-
Balance at December 31, 2017		**13,708,745**		**33,438**	**6,000,000**	**3,157,777**	**1,531,277**	**4,597,371**	**29,028,608**

Statement of Cash Flows for the Year Ended December 31, 2017

In thousands of Armenian Drams, unless otherwise stated

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		1,550,397	590,371
Adjusted for:			
Income tax expense		485,259	185,541
Impairment losses on interest bearing assets		155,678	564,262
Depreciation and amortization		614,535	505,591
Gain/(loss) from disposal of property and equipment		17,969	(82,573)
Income from grants		(240)	(507)
Net foreign currency translation gain		(276,643)	(659,504)
Net gain on available-for-sale financial assets		(533,283)	(330,885)
Other income		-	(2,369)
Cash inflows from operating activities before changes in operating assets and liabilities		**2,013,672**	**769,927**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Due from financial institutions		(5,319,747)	(1,125,763)
Reverse repurchase agreements		255,565	(3,720,261)
Loans to customers		(28,720,245)	(16,416,511))
Other assets		(596,946)	(1,034,484)
Increase/(decrease) in operating liabilities:			
Amounts due to financial institutions		816,675	2,820,460
Repurchase agreements		7,287,234	4,120,077
Amounts due to customers		25,071,374	4,821,305
Other liabilities		(44,802)	141,721
Cash used in operating activities before taxation		**762,780**	**(9,623,529)**
Income tax paid		(71,619)	(161,097)
Net cash used in operating activities		**691,161**	**(9,784,626)**
Cash flows from investing activities			
Cash received through merger		-	3,186,727
Purchase of available-for-sale financial assets		(10,783,114)	(4,403,264)
Purchase of held to maturity financial assets		(50,169)	
Proceeds from sale of available-for-sale financial assets		6,192,862	1,717,360
Purchase of property and equipment		(1,533,327)	(1,124,354)
Proceeds from sale of property and equipment		72,089	1,046,797
Purchase of intangible assets		(128,757)	(52,005)
Net cash (used in)/from investing activities		**(6,230,416)**	**371,261**
Cash flows from financing activities			
Receipt of loans from CBA and Government of Republic of Armenia		1,422,627	224,827
Proceeds from loans from international financial institutions		7,222,776	15,164,652
Repayment of loans from international financial institutions		-	(4,074,311)
Proceeds from subordinated debt		1,009,429	974,568
Share issue		-	2,112,925
Dividends paid		(338,365)	(423,057)
Net cash from financing activities		**9,316,467**	**13,979,604**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(12,210)	(57,000)
Net increase in cash and cash equivalents		**3,765,002**	**4,509, 239**
Cash and cash equivalents, beginning of year	13	**32,059,829**	**27,550,590**
Cash and cash equivalents, end of year	13	**35,824,831**	**32,059,829**

1. The Bank

"ARMECONOMBANK" OJSC (the "Bank") was incorporated in the Republic of Armenia in 1991, on the basis of USSR Armenian Republican Bank "State Social Bank" (1991-1993 "Armstatecombank" CJSC) and in 1995 restructured to an open joint stock company. The Bank is regulated by the legislation of RA and conducts its business under license number 1, granted by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits and extends credit as well as provides other banking services to its corporate and retail customers.

The head office and 26 branches of the Bank are located in Yerevan, 20 branches in different regions of Armenia and 1 branch in the Republic of Nagorno Karabakh. The registered office of the Bank is located at Amiryan str. 23/1, Yerevan.

2. Significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue its operation for the foreseeable future.
The Bank has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Bank in the Republic of Armenia. The management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on historical experience that short term liabilities will be refinanced in the normal course of business. See note 34.

These financial statements have been prepared under the historical cost convention, except for financial instruments at fair value through profit and loss, available-for-sale assets that are stated at fair value, and property and equipment that are stated at revalued amounts. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 35.

Functional currency. Items included in the financial statements are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the Armenian Drams ("AMD"). The presentational currency of the financial statements of the Bank is the AMD. All values are rounded to the nearest thousand AMDs ("AMD `000"), except when otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.
The principal accounting policies are set out below.

Interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or Group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income on repurchase and reverse repurchase agreements. Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Financial instruments

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: a) financial assets 'at fair value through profit or loss' ("FVTPL"), b) 'held to maturity' ("HTM") investments, c) 'loans and receivables' and d) 'available-for-sale' ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a) Financial assets at FVTPL. Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:
- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the Banking is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss and other comprehensive income.

b) Held to maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the current financial year and the following two financial years.

c) Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

d) Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, (b) held to maturity investments or (c) loans and receivables.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Write off of loans. Loans are written off against the allowance for impairment losses when deemed uncollectible. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets. The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the Banking is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Armenia, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Other financial liabilities. Other financial liabilities (including borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities. The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts. A financial guarantee contract is a contract that requires 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.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derivative financial instruments. In the normal course of business the Bank enters into various derivative financial instruments including, currency swaps and currency exchange contracts. Such financial instruments are held for trading and are initially recognized 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 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. Gains and losses from transactions in the above instruments are reported in the statement of profit or loss as gains less losses arising from transactions in financial assets (liabilities) at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss.

The Bank as lessee. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand and amounts due from credit institutions with original maturity of less or equal to 90 days, which may be converted to cash within a short period of time and are free from contractual encumbrances.

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

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 carrying amount and fair value less costs to sell.

Property and equipment. Property and equipment is carried at historical cost less accumulated depreciation and recognized impairment loss, if any. The Property and equipment was revalued during the year.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following useful lives:

Property and equipment class	Useful life (years)
Buildings	50
Computers	3-5
Vehicles	8
Leasehold improvement	20
Other	8

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term or renew the lease term.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The Bank starts to use revaluation model for buildings in 2016, the buildings are revalued as at 31 December 2016.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Bank of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment in associate. An associate is an entity over which the Bank is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale or available for sale.

Investments in associates are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Bank's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Bank's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Bank's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a Bank transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax differs from profit before income tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with property and equipment and loans to customers, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the assets realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

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

Provisions. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

Foreign currencies. In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.
The exchange rates used by the Bank in the preparation of the financial statements at year-end are as follows:

	Average Rate		**Spot Rate**	
	2017	**2016**	**December 31, 2017**	**December 31, 2016**
AMD/1 US Dollar	482.63	480.45	484.10	483.94
AMD/1 EUR	546.15	531.86	580.10	512.20
AMD/1 RUB	8.28	7.20	8.40	7.88

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Share capital. Contributions to share capital are recognized at cost. Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any income taxes.

Segment reporting. An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Operating Segments. Management does not review separately the operating results of any of the components of the Bank. Assets are concentrated primarily in the Republic of Armenia, and the majority of revenues and profit is derived from operations in, and connected with, the Republic of Armenia. The Chief Operating Decision Maker, in the case of the Bank, the Board of Directors, only receives and reviews the information on the Bank as a whole.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies the Bank management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans. The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses a combination of individual assessment and Bank assessment in determining the allowance for impairment required at any reporting date. Individual assessment is performed on loans and receivables that are considered individually significant. Loans and receivables with outstanding balance greater than 0.2% of equity capital are considered to be individually significant. The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers.

Individually significant loans and receivables that are not impaired, as well as all other loans and receivables that have not been individually assessed are then included in the Bank of loans and receivables that are collectively assessed for impairment. The collectively assessed loans and receivables are Banked based on similar credit risk characteristics and on their past-due status and assessed accordingly. The Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a Bank, and economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans. The Bank uses management's judgment to adjust observable data for a Bank of loans to reflect current circumstances not reflected in historical data. The collectively assessed methodology strives to ensure the allowance for impairment reflects the loss events that have occurred, but have not yet been identified on an individual basis.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Armenia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

At December 31, 2017 and 2016 the gross loans totaled AMD 105,821,678 and AMD 76,594,142, respectively, and allowance for impairment losses amounted to AMD 1,605,120 and AMD 1,546,483 respectively.

4. Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted. The application of these amendments had no material impact on the disclosures or the amounts recognized in the Bank's financial statements.

- Amendments to IAS 7 *Disclosure Initiative*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12

Amendments to IAS 7 Disclosure Initiative

The Bank has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Bank's liabilities arising from financing activities consist of borrowings (Note 13) and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in note 25. Consistent with the transition provisions of the amendments, the Bank has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 25, the application of these amendments has had no impact on the Bank's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12

The Bank has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Bank (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Bank's financial statements.

The Bank did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2];
- IFRIC 22 Foreign Currency Transactions and Advance Consideration[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 applicable for the Bank are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Impairment**. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Bank will adopt the IFRS 9 from the effective date of January 1, 2018; apply it retrospectively and recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as of January 1, 2018. We are continuing to evaluate the impact of this guidance on our financial statements. We expect that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.
In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management of the Bank has assessed the main revenue streams and has assessed that the performance obligations are satisfied over time and that the method currently used to recognize revenue will continue to be appropriate under IFRS 15.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Bank has non-cancellable operating lease commitments of USD 109,280 thousand. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 22. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Bank will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Bank's financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application. The management of the Bank does not anticipate that the application of these amendments will have a significant effect on the financial statements.

Annual improvements to IFRSs 2015 – 2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

The management of the Bank does not anticipate that the application of these amendments will have a significant effect on the financial statements.

5. Net interest income before impairment losses on interest bearing assets

	2017	2016
Interest income:		
Financial assets recorded at amortized cost:		
- Loans to customers	11,310,262	9,408,361
- Reverse repurchase agreements	307,528	337,872
- Due from financial institutions	354,394	139,121
- Held to maturity financial assets	8,593	-
- Other interest income	31,608	11,469
Total interest income on financial assets recorded at amortized cost	**12,012,385**	**9,896,823**
Financial assets recorded at fair value		
- Available-for-sale financial assets	2,109,590	1,463,126
Total interest income on financial assets recorded at fair value	**2,109,590**	**1,463,126**
Total interest income	**14,121,975**	**11,359,949**
Interest expense:		
Interest expense on financial liabilities recorded at amortized cost		
-Current accounts and deposits from customers	3,252,389	2,946,861
- Deposits and balances from banks	2,095,587	1,228,814
- Repurchase agreements	853,694	658,428
- Subordinated debt	734,976	612,305
-Loans from CBA and Government of the Republic of Armenia	286,481	237,627
-Loans from international financial institutions	17,219	156,891
-Bond issued	15,962	-
-Other interest expense	25,329	15,153
Total interest expense	**7,281,637**	**5,856,079**
Net interest income before impairment losses on interest bearing assets	**6,840,338**	**5,503,870**

6. Fee and commission income and expenses

	2017	2016
Wire transfer fees	1,612,892	1,181,605
Cash collection	210,939	152,409
Plastic cards operations	115,224	106,232
Guarantees and letters of credit	98,957	31,890
Foreign currency transaction and operations with securities	2,656	6,839
Other fees and commissions	-	1,010
Total fee and commission income	**2,040,668**	**1,479,985**
Plastic cards operations	157,504	138,988
Wire transfer fees	141,362	163,333
Foreign currency transaction and operations with securities	40,450	39,666
Service fees for correspondent accounts	5,373	5,024
Other fees and commissions	47,297	18,678
Total fee and commission expenses	**391,986**	**365,689**

7. Net foreign exchange income

	2017	2016
Foreign exchange translation gain	276,643	659,504
Net gain/ (loss) from trading in foreign currencies	769,643	(57,559)
Total net foreign exchange income	**1,046,286**	**601,945**

8. Other income

	2017	2016
Fines and penalties received	365,300	404,075
Gain from trading of precious metals	17,711	33
Income from grants	240	507
Gain from sale of property and equipment	-	82,573
Other income	94,817	53,325
Total other income	**478,068**	**540,513**

9. Impairment losses on interest bearing assets

	2017	2016
Loans to customers (Note 15)	(155,678)	(569,311)
Amounts due from financial institutions (Note 14)	-	5,049
Total impairment (loss)/recovery on interest bearing assets	**(155,678)**	**(564,262)**

10. Staff costs

	2017	2016
Wages and salaries	3,815,344	3,511,314
Total staff costs	**3,815,344**	**3,511,314**

11. Other expenses

	2017	2016
Advertising and representation	700,914	499,397
Repair and maintenance of property and equipment	585,536	420,831
Operating lease expenses	584,034	414,859
Expenses for cash collection services	345,000	300,537
Taxes, other than income tax	264,505	231,657
Guarantee payments to deposit guarantee fund	172,232	104,876
Security	138,742	88,285
Insurance costs	112,136	97,125
Communication	98,972	116,468
Plastic cards	82,936	62,138
Consulting and professional services	79,246	-
Office supply	77,498	72,200
Business trip	77,241	47,949
Loss from disposal of property, plant and equipment	17,969	-
Other operating expenses	356,821	294,240
Total other expense	**3,693,782**	**2,750,562**

12. Income tax expense

	2017	2016
Current tax expense in respect of current year	483,684	219,370
Current tax expense in respect of prior years	-	-
Deferred tax (benefit)/expense	1,575	(33,828)
Total income tax expense	**485,259**	**185,541**

The corporate income tax in 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:

	2017	Effective rate(%)	2016	Effective rate(%)
Profit before tax	**2,035,656**		**775,912**	
Income tax at the rate of 20%	407,131	20	155,182	20
Non-taxable income from AFS transactions	(69,209)	(3)	(66,177)	(9)
Non-deductible expenses	362,724	-	216,925	27
Foreign exchange (gains) / losses	(209,257)	10	(120,389)	(16)
Other non-taxable income and privileges	-	-	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	(6,100)	-	-	-
Income tax expense	**485,259**	**23**	**185,541**	**23**

Deferred tax calculation in respect of temporary differences:

	December 31, 2016	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017
Accrued expenses and other liabilities	104,967	22,909	-	127,876
Loans to customers	77,825	25,678	-	103,503
Total deferred tax asset	**182,792**	**48,587**	**-**	**231,379**
Investments available for sale	(340,918)	-	(69,209)	(410,127)
Amounts due from financial institutions	(16,976)	-	-	(16,976)
Contingent liabilities	(13,805)	2,818	-	(10,987)
Property and equipment	(836,315)	(52,980)	-	(889,295)
Total deferred tax liability	**(1,208,014)**	**(50,162)**	**(69,209)**	**(1,327,385)**
Net deferred tax asset/(liability)	**(1,025,222)**	**(1,575)**	**(69,209)**	**(1,096,006)**

	December 31, 2015	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2016
Accrued expenses and other liabilities	106,406	(1,439)	-	104,967
Loans to customers	31,958	45,867	-	77,825
Total deferred tax asset	**138,364**	**44,428**	**-**	**182,792**
Investments available for sale	(3,856)	-	(337,062)	(340,918)
Amounts due from financial institutions	(14,476)	(2,500)	-	(16,976)
Contingent liabilities	(11,005)	(2,800)	-	(13,805)
Property and equipment	(3,583)	(5300)	(827,432)	(836,315)
Total deferred tax liability	**(32,920)**	**(10,600)**	**(1,164,494)**	**(1,208,014)**
Net deferred tax asset	**105,444**	**33,828**	**(1,164,494)**	**(1,025,222)**

13. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Correspondent accounts with banks	1,369,519	13,197,181
Correspondent account with the CBA	25,017,857	10,044,520
Cash on hand	9,437,455	8,818,128
Total cash and cash equivalents	**35,824,831**	**32,059,829**

At December 31, 2017 and 2016 correspondent account with CBA includes the obligatory minimum reserve deposits with the CBA, which is computed at relevant rate in accordance with regulations by the CBA for obligations of the Bank denominated in Armenian drams and foreign currencies. 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. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

None of the cash and cash equivalents are past due nor impaired.

14. Due from financial institutions

	December 31, 2017	December 31, 2016
Loans and deposits	10,210,590	5,709,384
Credit card settlement deposit with the CBA	1,520,000	1,520,000
Cash held with the CBA for the replenishment of share capital, Note 30	557,158	-
Payment system receivables	124,640	503,187
Security deposits of cash in other organizations	64,060	183,901
Security deposits of cash in banks	-	82,402
Other amounts receivable from financial institutions	559,920	255,023
	13,036,368	**8,253,897**
Less allowance for impairment	-	-
Total due from financial institutions	**13,036,368**	**8,253,897**

At December 31, 2017 and December 31, 2016 included in amounts due from financial institutions are guarantee deposits placed by the Bank for its operations via VISA payment system in the amount of AMD 53,869 thousand, and via Armenian Card payment system in the amount of AMD 70,772 thousand (2016: AMD 53,726 thousand and AMD 75,454 thousand, respectively).

Deposits with the CBA include a guaranteed deposit for settlements via ArCa payment system.
Average interest rate for loans denominated in AMD is 14,65%, in USD 6.24%, (2016: denominated in AMD 14.8 %, in USD 6.4%).

The movement in allowance for impairment losses on amounts due from financial institutions was as follows:

	Total
At January 1, 2017	**-**
Reversal for the year	-
At December 31, 2017	**-**

None of the amounts due from financial institutions are past due nor impaired.

15. Loans to customers

	December 31, 2017	December 31, 2016
Loans to customers	97,252,824	64,138,385
Overdrafts	8,568,854	12,455,757
	105,821,678	**76,594,142**
Less allowance for loan impairment	(1,605,120)	(1,546,483)
Total loans to customers	**104,216,558**	**75,047,659**

At December 31, 2017 the weighted average effective interest rate on loans to customers was 19.6% for loans in AMD (2016: 20.58%) and 11.8% for loans in USD, EUR and other freely convertible currencies (2016: 12.8%).
At December 31, 2017 the Bank had a concentration of loans represented by AMD 22,100,509 thousand due from third parties (26.80% of gross loan portfolio) (December 31, 2016: AMD 14,986,273 thousand or 24.90% of gross loan portfolio). An allowance of AMD 198,500 thousand (December 31, 2016: AMD 149,863 thousand) was made against these loans.
Loans by industry sectors may be specified as follows.

	December 31, 2017	December 31, 2016
Consumer	39,931,510	23,870,621
Trading	31,065,800	9,622,131
Manufacturing	14,183,657	11,343,639
Construction	6,149,163	4,161,999
Mortgage	5,841,516	4,866,215
Agriculture	947,885	1,381,248
Other sectors	7,702,147	21,348,289
	105,821,678	**76,594,142**
Less allowance for loan impairment	(1,605,120)	(1,546,483)
Total loans	**104,216,558**	**75,047,659**

Loans by geographical concentration is presented in Note 35. Analysis by credit quality of loans to customers is below:

	At December 31, 2017			
	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer				
Not past due	39,566,982	482,999	39,083,983	1.2%
Overdue:			-	
- up to 30 days	96,550	10,186	86,364	10.5%
- 31 to 60 days	63,057	6,306	56,751	10.0%
- 61 to 90 days	64,732	7,800	56,932	12.0%
- 91 to 180 days	85,621	21,764	63,857	25.4%
- over 180 days	54,568	28,608	25,960	52.4%
Total	**39,931,510**	**557,663**	**39,373,847**	**1.4%**
Trading				
Not past due	30,192,722	356,392	29,836,330	1.2%
Overdue:			-	
- up to 30 days	13,293	1,363	11,930	10.3%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	520	125	395	24.0%

	At December 31, 2017			
	Gross loans	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
- over 180 days	859,265	256,762	602,503	29.9%
Total	**31,065,800**	**614,642**	**30,451,158**	**2.0%**
Manufacturing				
Not past due	14,183,657	141,837	14,041,820	1.0%
Overdue:			-	
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**14,183,657**	**141,837**	**14,041,820**	**1.0%**
Construction				
Not past due	6,149,163	61,492	6,087,671	1.0%
Overdue:				-
- up to 30 days	-		-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**6,149,163**	**61,492**	**6,087,671**	**1.0%**
Mortgage				
Not past due	5,743,500	65,914	5,677,586	1.1%
Overdue:				
- up to 30 days	3,108	373	2,735	12.0%
- 31 to 60 days	17,044	2,045	14,999	12.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	34,054	7,826	26,228	23.0%
- over 180 days	43,810	26,286	17,524	60.0%
Total	**5,841,516**	**102,444**	**5,739,072**	**1.8%**
Agriculture				-
Not past due	947,681	18,670	929,011	2.0%
Overdue:				
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	204	24	180	11.8%
- 91 to 180 days	-	-	-	0.0%
Total	**947,885**	**18,694**	**929,191**	**2.0%**
Other sectors				
Not past due	7,646,388	97,366	7,549,022	2.8%
Overdue:				0.0%
- up to 30 days	18,586	1,875	16,711	10.1%
- 31 to 60 days	2,920	292	2,628	10.0%
- 61 to 90 days	8,410	997	7,413	11.9%
- 91 to 180 days	16,873	3,374	13,499	20.0%
- over 180 days	8,970	4,444	4,526	49.5%
Total	**7,702,147**	**108,348**	**7,593,799**	**1.4%**
Grand total	**105,821,678**	**1,605,120**	**104,216,558**	**1.5%**

	At December 31, 2016			
	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Consumer				
Not past due	23,053,833	325,568	22,728,265	1.4%
Overdue:				
- up to 30 days	129,580	13,406	116,174	10.3%
- 31 to 60 days	157,642	17,365	140,277	11.0%
- 61 to 90 days	109,617	11,994	97,623	10.9%
- 91 to 180 days	294,984	63,569	231,415	21.5%
- over 180 days	124,965	63,267	61,698	50.6%
Total	**23,870,621**	**495,169**	**23,375,452**	**22.1%**
Trading				
Not past due	10,504,517	135,022	10,369,495	1.3%
Overdue:				
- up to 30 days	18,619	2,038	16,581	10.9%
- 31 to 60 days	134,692	31,637	103,055	23.5%
- 61 to 90 days	19,639	3,687	15,952	18.8%
- 91 to 180 days	77,498	17,734	59,764	22.9%
- over 180 days	588,674	211,709	376,965	36.0%
Total	**11,343,639**	**401,827**	**10,941,812**	**2.9%**
Manufacturing				
Not past due	9,606,897	96,069	9,510,828	1.0%
Overdue:				
- up to 30 days	4,287	514	3,773	12.0%
- 31 to 60 days	10,947	1,314	9,633	12.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**9,622,131**	**97,897**	**9,524,234**	**1.0%**
Construction				
Not past due				
Overdue:	4,866,215	48,662	4,817,553	1.0%
- up to 30 days				
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
- over 180 days	-	-	-	0.0%
Total	**4,866,215**	**48,662**	**4,817,553**	**1.0%**
Mortgage				
Not past due	4,102,821	49,611	4,053,210	1.2%
Overdue:				
- up to 30 days	14,447	1,445	13,002	10.0%
- 31 to 60 days	10,096	1,192	8,905	11.8%
- 61 to 90 days	5,175	517	4,658	10.0%
- 91 to 180 days	8,980	2,038	6,942	22.7%
- over 180 days	20,480	12,288	8,192	60.0%
Total	**4,161,999**	**67,091**	**4,094,909**	**1.6%**
Agriculture	1,381,248	27,396	1,353,853	2.0%
Not past due				0.0%
Overdue:	-	-	-	0.0%
- up to 30 days	-	-	-	0.0%
- 31 to 60 days	-	-	-	0.0%
- 61 to 90 days	-	-	-	0.0%
- 91 to 180 days	-	-	-	0.0%
Total	**1,381,248**	**27,396**	**1,353,853**	**2.0%**
Other sectors				
Not past due	21,185,869	357,729	20,828,140	1.7%
Overdue:				
- up to 30 days	27,719	2,884	24,835	10.4%
- 31 to 60 days	38,751	4,162	34,589	10.7%
- 61 to 90 days	8,986	1,154	7,832	12.8%
- 91 to 180 days	24,780	5,202	19,578	21.0%
- over 180 days	62,184	37,311	24,873	60.0%
Total	**21,348,289**	**408,442**	**20,939,847**	**1.9%**
Grand total	**76,594,142**	**1,546,483**	**75,047,659**	**2.01%**

The analysis of changes for loan impairment in 2017 and 2016 is presented in the table below:

	Consumer	Trading	Manufacturing	Construction	Mortgage	Agriculture	Other	Total
At January 1, 2017	**495,168**	**401,827**	**97,897**	**48,662**	**67,091**	**27,396**	**408,442**	**1,546,483**
Charge for the year	79,800	33,709	3,800	8,500	4,900	8,900	16,069	155,678
Amounts written off	(293,898)	(234,399)	(23,090)	(2,388)	(1,413)	(38,900)	(360,801)	(954,889)
Recoveries	276,593	413,505	63,230	6,718	31,866	21,298	44,638	857,848
At December 31,2017	**557,663**	**614,642**	**141,837**	**61,492**	**102,444**	**18,694**	**108,348**	**1,605,120**
Individual impairment	19,987	374,737	-	-	4,976	-	-	399,700
Collective impairment	537,676	239,905	141,837	61,492	97,468	18,694	108,348	1,205,420
Loans individually determined to be impaired before individually assessed allowance for impairment	**91,187**	**547,312**	**-**	**-**	**8,621**	**-**	**-**	**647,120**
Allowance for impairment	**(19,987)**	**(374,737)**	**-**	**-**	**(4,976)**	**-**	**-**	**(399,700)**
Loans individually determined to be impaired after individually assessed allowance for impairment	**71,200**	**172,575**	**-**	**-**	**3,645**	**-**	**-**	**247,420**

	Consumer	Trading	Manufacturing	Construction	Mortgage	Agriculture	Other	Total
At January 1, 2016	**333,412**	**265,398**	**96,984**	**42,690**	**46,202**	**45,579**	**172,126**	**1,002,391**
Charge for the year	158,500	331,809	29,894	13,500	5,780	13,500	16,928	569,311
Amounts written off	(259,908)	(196,500)	(29,800)	(7,860)	-	(31,683))	(18,590)	**(544,341)**
Recoveries	263,164	1,120	819	332	15,709	-	237,978	**519,122**
At December 31,2016	**495,168**	**401,827**	**97,897**	**48,662**	**67,091**	**27,396**	**408,442**	**1,546,483**
Individual impairment	14,565	342,000	-	-	7,550	-	-	**364,115**
Collective impairment	480,603	59,827	97,897	48,662	59,541	27,396	408,442	**1,182,368**
Loans individually determined to be impaired before individually assessed allowance for impairment	**94,615**	**680,500**	**-**	**-**	**10,680**	**-**	**-**	**787,795**
Allowance for impairment	**(14,587)**	**(342,000)**	**-**	**-**	**(7,550)**	**-**	**-**	**(364,137)**
Loans individually determined to be impaired after individually assessed allowance for impairment	**80,028**	**338,500**	**-**	**-**	**3,130**	**-**	**-**	**421,658**

16. Available-for-sale financial assets

	December 31, 2017	December 31, 2016
Held by the Bank		
Debt instruments		
Government securities of the Republic of Armenia	1,532,076	2,379,734
Non government securities	414,930	416,305
	1,947,006	**2,796,039**
Equity instruments		
Shares of companies operating in the Republic of Armenia	89,085	83,216
Shares of companies operating outside the Republic of Armenia	-	-
	89,085	**83,216**
Total held by the Bank	**2,036,091**	**2,879,255**
Pledged under repurchase agreements, Note 19		
Debt instruments		
Government securities of the Republic of Armenia	19,619,097	13,169,605
Non government securities	-	-
Total securities pledged under repurchase agreements	**19,619,097**	**13,169,605**
Total available-for-sale financial assets	**21,655,188**	**16,048,860**

Government debt securities represent securities issued by the Ministry of Finance of Armenia bearing fixed coupon interest rates between 9 to 14 % p.a. (2016: 8 to 13% p.a.) and expiring between 2018-2036 (2016: 2016 to 2036). The fair value of these instruments is measured using valuation techniques applying current market rates to discounted future cash flows.
Equity instruments of shares in companies operating in the Republic of Armenia represent equity investments in unquoted companies carried at cost, adjusted for impairment losses, due to management's inability to reliably estimate the fair value of these companies and investments therein. There is no market for these investments and the Bank intends to hold them for the long term. See Note 19 for details of additional equity instruments recognised during the reporting period.

None of the available for sale assets are past due nor impaired.

17. Transfers of financial assets and financial liabilities

The Bank has transactions under repurchase or reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Bank. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

Reverse repurchase agreements

At December 31, 2016 the Bank had reverse repurchase agreements signed with entities in financial services sector for the amount of AMD 4,296,862 thousand (31 December, 2016: AMD 4,552,427 thousand). At December 31, 2017 the fair value of assets received as collateral for these reverse repurchase agreements, representing government debt securities, amounted to AMD 1,491,589 thousand (2016: AMD 4,649,693 thousand). The Bank is obliged to return equivalent securities. Average interest rate is 6.75% (2016: 6.9%).

Repurchase agreements

	December 31, 2017	December 31, 2016
Fair value of own financial assets available-for-sale transferred and pledged under repurchase agreements	19,619,097	13,169,605
Fair value of repledged assets that were received as collateral for reverse repurchase agreements	1,491,589	4,649,693
Total financial assets transferred and pledged under repurchase agreements	**21,110,686**	**17,819,298**
Carrying amount of associated liabilities	**20,511,989**	**13,224,755**

At December 31, 2017 and December 31, 2016 included in carrying amount of associated liabilities for repurchase agreements were repurchase agreements signed with the Central Bank of Armenia and other financial institutions. Average interest rate is 6.24% (2016: 6.32%).

18. Property and equipment

	Land and buildings	Vehicles	Computers	Leasehold improvements	Other	Total
Cost or revalued amount						
At January 1, 2016	**4,061,091**	**554,230**	**1,827,596**	**174,147**	**1,431,256**	**8,048,320**
Acquisition through merger	438,624	42,887	115,208	8,577	319,398	924,694
Additions	573,090	198,110	202,763	33,297	117,094	1,124,354
Transfer	-	-	(904)	-	904	-
Revaluation	4,137,161	-	-	-	-	4,137,161
Disposals	(2,350,351)	(160,030)	(2,060)	-	(96,151)	(2,608,592)
At December 31, 2016	**6,859,615**	**635,197**	**2,142,603**	**216,021**	**1,772,501**	**11,625,937**
Additions	650,220	178,689	384,310	65,520	254,588	1,533,327
Disposals	-	(99,328)	(134,836)	(6,418)	(86,755)	(327,337)
Transfers	14,339	-	4,721	(13,039)	(6,021)	-
At December 31, 2017	**7,524,174**	**714,558**	**2,396,798**	**262,084**	**1,934,313**	**12,831,927**
Accumulated depreciation						
At January 1, 2016	**1,400,250**	**183,151**	**1,358,654**	**57,353**	**915,126**	**3,914,534**
Acquisition through merger	68,146	22,359	93,694	3,142	246,471	433,812
Depreciation charge	129,534	62,924	166,914	10,777	114,748	484,897
Disposals	(1,479,913)	(91,257)	(2,048)	-	(71,150)	(1,644,368)
At December 31, 2016	**118,017**	**177,177**	**1,617,214**	**71,272**	**1,205,195**	**3,188,875**
Depreciation charge	172,568	74,881	176,559	8,286	143,340	575,634
Disposals	-	(33,266)	(121,348)	(6,099)	(76,566)	(237,279)
At December 31, 2017	**290,585**	**218,792**	**1,672,425**	**73,459**	**1,272,969**	**3,527,230**
Net book value						
At December 31, 2017	**7,233,589**	**495,766**	**724,373**	**188,625**	**662,344**	**9,304,697**
At December 31, 2016	**6,741,598**	**458,020**	**525,389**	**144,749**		**8,437,062**
At January 1, 2016	**2,660,841**	**371,079**	**468,942**	**116,794**	**516,130**	**4,133,786**

At December 31, 2017 property and equipment included fully depreciated assets with original cost of AMD 1,655,628 thousand (2016: AMD 1,180,752 thousand).

The Bank's buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurement of the Bank's buildings was determined as of March 31, 2016, which approximates fair values as of the beginning of the reporting period. The valuation was performed by an independent valuer not related to the Bank. The revalued value of the buildings was determined under the Market and Income approaches.

The Market Approach relied upon market prices for comparable properties available as of the date of valuation. The following adjustments were applied to reflect differences in characteristics between the subject property and the comparable: sale-to-list ratio (-15%), area adjustment (up to -20%), fit-out quality and bank equipment adjustment (5-10%).

Under the Income Approach the direct capitalization technique was applied. To determine the value of the buildings under the Income Approach the following assumptions were used: occupancy was accepted at 90% for all buildings, operational expenses - at 20% from the buildings' effective gross income, capitalization rate was calculated at 7.75% under market extraction method.

The fair value determinations for the purposes of revalued amounts of buildings represent Level 3 category valuations.

19. Intangible assets

	Licenses	Software	Other	Total
Cost				
At January 1, 2016	**132,814**	**37,544**	**14,407**	**184,765**
Acquisition through merger	14,406	85,822	16,468	116,696
Additions	7,243	-	44,762	52,005
Disposals	(300)	(1,261)	-	(1,561)
At December 31, 2016	**154,163**	**122,105**	**75,637**	**351,905**
Additions	100,707	28,050	-	128,757
Disposals	-	-	-	-
At December 31, 2017	**254,870**	**150,155**	**75,637**	**480,662**
Accumulated amortization				
At January 1, 2016	**69,381**	**23,958**	**8,310**	**101,649**
Amortization charge	14,062	4,653	1,839	20,554
Disposals	(300)	(1,261)	-	(1,561)
At December 31, 2016	**83,143**	**27,350**	**10,149**	**120,642**
Amortization charge	26,648	9,234	3,020	38,902
At December 31, 2017	**109,791**	**36,584**	**13,169**	**159,544**
Net book value at December 31, 2017	**145,079**	**113,571**	**62,468**	**321,118**
Net book value at December 31, 2016	**71,020**	**94,755**	**65,488**	**231,263**
Net book value at January 1, 2016	**63,433**	**13,586**	**6,097**	**83,116**

20. Other assets

	December 31, 2017	December 31, 2016
Settlements with employees	57,782	37,609
Amounts receivable	92,271	37,550
Allowance for impairment in respect of other financial assets	(21,558)	(376)
Total other financial assets	**128,495**	**74,783**
Prepayments and other debtors	1,164,906	645,728
Repossessed assets	358,961	492,847
Materials	292,446	178,469
Precious metals	18,356	443
Other assets	134,395	118,559
Total non financial assets	**1,969,064**	**1,436,046**
Less allowance for impairment	-	-
Total non financial assets	**1,969,064**	**1,436,046**
Total other assets	**2,097,559**	**1,510,859**

Reconciliation of allowance account for losses on other assets is as follows:

	Total
At January 1, 2016	**3,367**
Reversal for the year	(3,550)
Recoveries	759
At December 31, 2016	**376**
Charge for the year	21,182
Recoveries	-
At December 31, 2017	**21,558**

Prepayments represents the prepayments for construction and repair of additional floor in the main building.

21. Loans from CBA and Government of Republic of Armenia

	December 31, 2017	December 31, 2016
Loans from CBA	4,397,941	2,982,513
Loans from Government of Republic of Armenia	13,686	6,487
Total loans from CBA and Government of Republic of Armenia	**4,411,627**	**2,989,000**

Loans from the CBA and the Government of the Republic of Armenia represent loans received within the scope of "Small and medium business loan project" of German-Armenian fund relating to "Renewable energy" and "Housing finance".

At December 31, 2017 and December 31, 2016 included in loans received from RA Government is the loan received within the scope of "Small and medium business loan project".
Loans from CBA and the Government of the Republic of Armenia are denominated in Armenian dram, bear fixed interest rates from 5,5% to 9% and mature from January 2018 to December 2020.

22. Amounts due to financial institutions

	December 31, 2017	December 31, 2016
Loans and deposits from financial institutions	14,110,282	13,663,835
Current accounts of financial institutions	590,503	260,230
Correspondent accounts of other banks	18,967	13,732
Other	102,986	68,265
Total amounts due to financial institutions	**14,822,737**	**14,006,062**

At December 31, 2017 and December 31, 2016 loans and deposits from financial institutions represent loans and deposits from resident and non-resident banks.

Amounts due to financial institutions bear fixed interest rates from 0.5% to 12.8% and mature from January 2018 to December 2026. These liabilities are denominated in Armenian drams, Euros and US dollars, see Note 35.

23. Loans and deposits from international financial institutions

Loans and deposits from international financial institutions include loans from Micro, Small and Medium Enterprises Bonds S.A., INCOFIN CVBA, BlueOrchard Microfinance Fund LLC, Global Impact Investments Sarl, Finethic S.C.A., ADB, GLS Alternative Investments – Mikrofinanzfonds, Symbiotics - Global Financial Inclusion Fund and Symbiotics - SEB IV Microfinance Fund.

At December 31, 2017 the effective interest rate on loans and deposits received from international financial institutions was 9.1% for borrowings in AMD (2016: 8.2%) and 6.7% for borrowings in USD, EUR and other freely convertible currencies (2016: 6,50%).

During the year ended and at December 31, 2017 the Bank has not had any defaults of principal or interest payments with respect to its liabilities to international financial institutions (2016: none).

At December 31, 2017 and 2016 loans, including accrued interest, with stipulated compliance with certain capital and financial covenants as per respective loan agreements are presented below:

	Currency	Maturity	Nominal Interest rate, %	December 31, 2017	Nominal interest rate, %	December 31, 2016
MSME BSA	USD	1-3 years	6.2%	4,840,471	6.2%	4,799,148
INCOFIN CVBA	USD	1-2 years	6.5%	1,490,474	6.5%	2,881,211
BlueOrchard Microfinance Fund LLC	USD	1-3 years	"Libor 6m+4.8%"	1,621,477	Libor 6m+4.8%	2,397,415
GII	USD	1-3 years	4.5%	2,424,534	4.5%	2,395,841
BlueOrchard Microfinance Fund LLC	USD	1 years	-	-	Libor 6m+5.5%	719,689
FNSCA	USD	1-3 years	4.5%	481,739	4.5%	479,158
EBRD	AMD	1 years	-	-	8.20%	336,877
Asian Development Bank	USD	1 years	-	-	Libor 6m+6%	78,552
GII	USD	1-4 years	5.0%	1,446,438	-	-
Asian Development Bank	USD	1 years	Libor6 +2.55%	67,974	-	-
Asian Development Bank	USD	Less than 1 year	Libor6 +2.55%	24,298	-	-
GLS Alternative Investments - Mikrofinanzfonds	USD	1-3 years	6.0%	489,474	-	-
Symbiotics Global Financial Inclusion	AMD	1-4 years	10.5%	505,999	-	-
Symbiotics SEB IV Microfinance Fund	AMD	1-4 years	10.5%	2,023,997	-	-
INCOFIN CVBA	USD	1-4 years	5.0%	4,879,879	-	-
Total				**20,296,754**		**14,087,891**

The Bank is obligated to comply with financial covenants in relation to the above borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. At December 31, 2017 and 2016, the Bank had not breached these covenants with the exception of the below ratios:

Single party exposure to capital ratio, BlueOrchard Microfinance Fund LLC as at 31 December 2017 and EBRD at December 31, 2016. The bank received waiver dated 22 September 2017 from BlueOrchard Microfinance Fund LLC in respect of the single party exposure to capital ratio breach.

For the purposes of the Bank's liquidity position analysis as at 31 December 2017, the Bank includes all the borrowings from international institutions as on demand as according to agreements with international institutions there are cross default clauses, see Note 35. Management is of the firm belief, however, that these loans will be repaid according to their contractual terms.

24. Amounts due to customers

	December 31, 2017	December 31, 2016
Corporate customers		
Current/settlement accounts	21,622,825	13,200,858
Time deposits	9,854,852	7,288,150
	31,477,677	**20,489,008**
Individual customers		
Time deposits	43,242,084	32,243,577
Current/demand accounts	16,984,137	14,062,707
	60,226,221	**46,306,284**
Total amounts due to customers	**91,703,898**	**66,795,292**

At December 31, 2017 included in amounts due to corporate customers are deposits amounting to AMD 900,890 thousand (2016: AMD 849,600 thousand) held as security against loans, letters of credit issued, guarantees and other related instruments. The fair value of those deposits approximates their carrying amount.

At December 31, 2017 the aggregate balance of top ten customers of the Bank amounts to AMD 19,851,054 thousand (2016: AMD 15,380,037 thousand) or 19% of total customer accounts (2016: 17%).

At December 31, 2017 the effective interest rates on amounts due to customers was 6.8 % for amounts attracted in AMD (2016: 5.4 %) and 4.5% for amounts attracted in USD, EUR and other freely convertible currencies (2016: 4.7%).
During year ended and at December 31, 2017 the Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities to customers (2016: none).

25. Financial assets and liabilities at fair value through profit or loss

	December 31, 2017			December 31, 2016		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Trading derivative instruments						
Foreign currency swaps	1,650,000	-	(7,706)	845,600	1,676	-
Total derivative financial instruments	**1,650,000**	**-**	**(7,706)**	**845,600**	**1,676**	**-**

Foreign currency swap contracts

The table below summarizes, by major currencies, the contractual amounts of foreign currency swap contracts outstanding at December 31, 2017, with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at the reporting date rates.

	Nominal amount	
	December 31, 2017	December 31, 2016
Purchase of AMD, Sale of USD	1,650,000	845,600
	1,650,000	**845,600**

26. Subordinated debt

	CCY	Maturity	Nominal rate, %	December 31, 2017	December 31, 2016
Eduard Suqiasyan	AMD	20/03/2025	14.00%	1,210,126	1,210,098
Khachatur Suqiasyan	AMD	17/04/2025	14.00%	1,512,658	1,512,623
Robert Suqiasyan	AMD	28/04/2027	14.00%	1,008,438	-
Saribek Suqiasyan	USD	05/04/2025	9.50%	1,704,052	1,703,462
Saribek Suqiasyan	USD	04/04/2026	10.50%	974,327	973,989
				6,409,601	**5,400,172**

The proceeds from issuance of subordinated debt were used to enhance the capital strength of the Bank and are included in regulatory capital structure of the Bank as Tier 2 capital. See also Note 34.

27. Other liabilities

	December 31, 2017	December 31, 2016
Amounts due to individuals	132,100	243,094
Dividends payable	104,911	72,789
Amounts payable	78,394	64,643
Total other financial liabilities	**315,405**	**380,526**
Due to personnel	558,840	524,833
Taxes payable, other than income tax	197,625	177,852
Other non-financial liabilities	-	1,335
Total non-financial liabilities	**756,465**	**704,020**
Total other liabilities	**1,071,870**	**1,084,546**

28. Equity

At December 31, 2017 the Bank's registered and paid-in share capital was AMD 13,708,745 thousand (2016: AMD 4,631,333 thousand). In accordance with the statute, the replenished share capital consists of 1,852,533 ordinary shares, all of which have a par value of AMD 2,500. At December 31, 2017 the Bank's capital authorised for issue was 1,852,533 ordinary shares with par value of AMD 7400 (2016: was 1,852,533ordinary shares with par value of AMD 2,500).

The respective shareholders at December 31, 2017 and December 31, 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Paid-in share capital	**% of total paid in capital**	**Paid-in share capital**	**% of total paid in capital**
Saribek Sukiasyan	3,882,317	28.32%	1,450,533	31.3%
Khachatur Sukiasyan	2,233,155	16.29%	637,734	13.8%
Robert Sukiasyan	1,957,409	14.28%	536,771	11.6%
Eduard Sukiasyan	1,461,352	10.66%	492,774	10.6%
European Bank of Reconstruction and Development	345,460	2,52%	350,129	7.6%
BTA Bank	-	-	1,102,965	23.82%
Other shareholders	3,829,052	27.93%	60,427	1.28%
	13,708,745	**100%**	**4,631,333**	**100%**

The Bank transferred the share premium in the amount of AMD 9,077,412 thousand into share capital. The new share capital was registered.

At December 31, 2017 and December 31, 2016, 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 general meetings of the Bank.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian 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 statutes that provide for the creation of a reserve for these purposes of not less than 15% of the share capital reported in statutory books.

In accordance with Bank's shareholders meeting held on May 17, 2017 dividends of AMD 200 per share were declared.

29. Bond issued

	Currency	Maturity	Coupon rate %	31-Dec-17	31-Dec-16
Debt securities issued	AMD	29/12/2019	12%	100,100	-
Debt securities issued	USD	29/12/2019	5.75%	968,664	-
				1,068,764	**-**

30. Merger of BTA bank with the Bank

According to the CBA Board Decision N16BG A of 06 May 2016 about the preliminary approval and the Shareholders General meeting of 18 August.2016 about the approval of signing the contract the merger of AEB OJSC and BTA Bank CJSC took place. A contract of merger was signed in 06 June.2016 and the acquisition and merger occurred at 24 August 2016. The assets and liabilities acquired are presented below:

Assets:	**August 23, 2016**
Cash and cash equivalents	3,186,727
Reverse repurchase agreements	848,368
Loans and advances to customers	3,653,836
Property plant and equipment	490,882
Intangible assets	116,696
Other assets	148,692
Total assets	**8,445,201**

Liabilities:	
Amounts due to financial institutions	415,471
Amounts due to customers	2,268,100
Other liabilities	110,562
Total liabilities	**2,794,133**
Net assets acquired	**5,651,068**

As a result of merger the chartered capital increased by AMD 1,102,965 thousand.

31. Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional 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 earlier periods. Management believes that the Bank has complied with all regulations and has adequately 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 balance sheet.

The nominal or contract amounts of these commitments, guarantees and other contingent liabilities at December 31, were as follows:

	December 31, 2017	December 31, 2016
Undrawn loan commitments	6,013,484	5,749,194
Guarantees	2,144,644	2,003,652
Total commitments, guarantees and other contingent liabilities	**8,158,128**	**7,752,846**

Operating lease commitments – The Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for office and facilities. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2017	December 31, 2016
Not later than 1 year	400,438	496,792
From 1 to 5 years	2,245,170	1,627,266
Total operating lease commitments	**2,645,608**	**2,124,058**

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. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. However at December 31, 2017 the Bank had insurance for its head office building and transportation means. The Bank also had insurance for total liabilities of the Bank, electronic and computer crime and professional responsibility. 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.

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons

Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 10,000 thousand (up to AMD 5,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

32. 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 subsidiaries, shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

At December 31, 2017 the ultimate controlling party of the Bank are the Sukiasyans, who control 69.55% (AMD 9,534,432 thousand) of the share capital of the Bank. The European Bank of Reconstruction and Development possesses 2.52% of the Bank's shares plus one share.

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

	2017		
	Shareholders	**Key management personnel**	**Associates and investees**
Loans to customers			
Loans outstanding at January 1, gross	751,877	97,458	-
Loans issued during the year	859,276	263,177	-
Loan repayments during the year	(635,605)	(153,418)	-
Loans outstanding at December 31, gross	**975,548**	**207,217**	**-**
Less: allowance for loan impairment	(44,681)	(2,164)	-
Loans outstanding at December 31	**930,867**	**205,053**	**-**
Interest income on loans	74,641	16,325	-
Impairment losses/(recovery) for credit losses	(8,456)	(1,603)	-
Amounts due to customers			
Deposits at January 1	1,286,621	30,711	-
Deposits during the year	26,183,083	4,368,046	-
Deposits repaid during the year	(26,508,687)	(3,274,719)	-
Deposits at December 31	**961,017**	**1,124,038**	-
Interest expense on deposits	23,926	59,366	-
Amounts due to financial institutions			
Amounts due to financial institutions at January 1	458,716	-	-
Increase during the year	9,115,903	-	-
Decrease during the year	(9,381,267)	-	-
Amounts due to financial institutions at December 31	**193,352**	-	-
Interest expense	19,663	-	-
Subordinated debt			
Subordinated debt at January 1	**5,399,302**	**-**	-
Issued during the year	-	-	-
Subordinated debt at December 31	**6,409,601**	**-**	-
Interest expense	**-**	-	-
Advances received for shares to be issued			
At January 1	**-**	**-**	-
Increase	-	**-**	-
Decrease	-	**-**	-
At December 31	**-**	**-**	-
	-		
Purchase of property and equipment	**41,933**	**-**	-
Guarantees issued	**69,439**	**-**	-
Other expenses			
Fee and commission income	4,993	1,310	-
Advertising expenses	46,978	-	-
Insurance expenses	-	-	165,848
Cash collection expenses	-	-	-
Operating lease expenses	426,568	-	-
Business trip expenses	23,475	-	-
Other expenses	48,000	-	-

	2016		
	Shareholders	**Key management personnel**	**Associates and investees**
Loans to customers			
Loans outstanding at January 1, gross	789,514	77,539	-
Loans issued during the year	452,040	142,062	-
Loan repayments during the year	(489,677)	(163,022)	-
Loans outstanding at December 31, gross	**751,877**	**56,579**	**-**
Less: allowance for loan impairment	(36,225)	(582)	-
Loans outstanding at December 31	**715,652**	**55,997**	**-**
Interest income on loans	116,224	5,146	-
Impairment losses/(recovery) for credit losses	**(28,621)**	**205**	-
Amounts due to customers			
Deposits at January 1	1,191,290	238,029	-
Deposits during the year	31,073,549	650,194	-
Deposits repaid during the year	(30, 978,218)	(857,512)	-
Deposits at December 31	**1,286,621**	**30,711**	-
Interest expense on deposits	46,563	684	-
Amounts due to financial institutions			
Amounts due to financial institutions at January 1	1,013,049	-	-
Increase during the year	6,063,223	-	-
Decrease during the year	(6,617,556)	-	-
Amounts due to financial institutions at December 31	**458,716**	-	-
Interest expense	141,702	-	-
Subordinated debt			
Subordinated debt at January 1	**4,425,604**	**-**	-
Issued during the year	973,698	-	-
Subordinated debt at December 31	**5,399,302**	**-**	-
Interest expense	78,263	-	-
Advances received for shares to be issued			
At January 1	**4,001,688**	**-**	-
Increase	-	**-**	-
At December 31	(4,001,688)	**-**	-
Purchase of property and equipment	**31,796**	**-**	-
Guarantees issued	**96,788**	**-**	-
Other expenses			
Fee and commission income	3,761	177	-
Advertising expenses	23,683	-	-
Insurance expenses	-	-	-
Cash collection expenses	-	-	-
Operating lease expenses	60,667	-	-
Business trip expenses	10,472	-	-
Other expenses	200	-	-

For the year ended December 31, 2017, the total remuneration of the directors and key management personnel of the Bank amounted to AMD 400,509 thousand (2016: AMD 366,982 thousand). Key management personnel include Management Board and members of the Board of Directors.

33. Fair value of financial instruments

The Bank performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*.

The estimated fair values of quoted available-for-sale assets are based on quoted market prices at the reporting date without any deduction for transaction costs. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The Bank measures fair values for financial instruments recorded at fair value in the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value at		Fair value hierar-chy	Valuation technique(s) and key input(s)	Significant unobser-vable input(s)	Relationship of unobser-vable inputs to fair value
	December 31, 2017	**December 31, 2016**				
Non-government securities pledged under repurchase agreements	-	-	Level 2	Discounted cash flows The predetermined cash flows are discounted at a rate that reflects market yield for specific time to maturity.	N/A	N/A
Government securities of the Republic of Armenia held by the Bank	1,986,400	2,379,734	Level 2		N/A	N/A
Government securities of the Republic of Armenia pledged under repurchase agreements	19,619,097	13,169,605	Level 2	Discounted cash flows. The predetermined cash flows are discounted at a rate that reflects market yield for specific time to maturity.	N/A	N/A
Financial assets at fair value through profit or loss	-	1,676	Level 2	Future cash flows are estimated based on estimated forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Financial liabilities at fair value through profit or loss	(7,706)	-	Level 2	Future cash flows are estimated based on estimated forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities, nor the estimates presented herein are necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument. Judgment is required to interpret market data to determine the estimated fair value. Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.
There were no transfers between Level 1 and 2 in the period.

Interest rates used to discount these estimated cash flows are based on the government yield curve at the reporting date plus currency of the instrument, maturity and the credit risk of the counterparty, and were as follows:

	December 31, 2017	December 31, 2016
Available for sale financial assets	12.2%-26.1%	12.45%-27.3%

Fair value of the Bank's financial assets and financial liabilities not measured at fair value on a recurring basis

The estimates of fair values of fixed interest rate financial assets are 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. Except as detailed below, the management considers that the fair values of financial assets approximate their carrying values.

The estimated fair values of fixed interest-bearing deposits and other borrowings not quoted in an active market are based on discounted cash flows using interest rates for new debts with similar remaining maturity. Except as detailed below, the management considers that the fair values of financial liabilities approximate their carrying values.

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans to customers	104,216,558	11, 890,599	77,314,109	77,008,679
Amounts due to customers	(91,703,898)	(91,400,093)	(66,795,292)	(66,682,700)
Loans and deposits from international financial institutions	(20,296,754)	(20,906,754)	(14,087,895)	(14,908,504)
Loans from financial institutions	(14,822,737)	(15,600,809)	(14,006,062)	(14,200,508)
Subordinate debt	(6,409,601)	(7,405,773)	(5,401,172)	(5,830,809)
Debt securities issued	(1,068,764)	(1,068,764)	-	-

34. Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. The adequacy of the Bank's capital is set and monitored using the ratios established by CBA. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through payment of dividends, new share issues as well as the issue of debt. In addition the Bank manages its capital in order to meet covenant requirements.

The CBA sets and monitors capital requirements for the Bank. Under the current capital quantitative requirements set by the CBA, the Bank at December 31, 2017 has to maintain a minimum capital of AMD30,000,000 thousand (December 31, 2016: AMD 5,000,000 thousand) and ratio of total capital to risk weighted assets of 12% (December 31, 2016: 12%).

The calculation of regulatory capital ratio based on requirements set by the CBA is as follows:

	December 31, 2017 Unaudited	December 31, 2016 Unaudited
Tier 1 capital	25,298,570	21,661,334
Tier 2 capital	8,500,076	8,500,076
Total capital	33,798,645	**30,161,410**
Risk weighted assets	160,789,654	**124,862,421**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**21.04%**	**24.16%**
Compliance with the minimum share capital and total capital requirements	**No breaches during the year**	**No breaches during the year**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

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

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. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The

Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to diagnose, identify, evaluate and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management structure
Responsible parties for risk disclosure and monitoring are:

Board
The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Executive Board
The Executive Board has the responsibility to monitor the uninterrupted risk management process within the Bank. It is responsible for elaboration and application of the risk management strategy, principles, policies and limits. The Executive Board is responsible for solving problems related with risk management and monitors the application of respective decisions made with respect to them.

Risk Management Subdivision
Risk management is carried out by Strategy Risk Management Administration under policies approved by the Board of Directors. Strategy and Risk Management Department diagnoses, identifies, analyses, evaluates and hedges financial risks in close co-operation with the Bank's operating departments. The Risk Management Subdivision is responsible for monitoring risk management principles, policy and the Bank's risk limits, as well as implementing and realizing procedures connected with risk management.

Internal Audit
Internal audit is responsible for the independent assessment of risk management and monitoring for the overall environment. Risk management processes throughout the Bank are audited annually by the internal audit, which 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 reports its findings and recommendations to the respective management body.

Risk measurement and reporting systems
The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. The Executive Body receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and conclude on the risks of the Bank. A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation
Risk mitigation is the undertaking of additional measures for reducing the possibility of risk origination or its impact or the mitigation of both of these factors. As part of its overall risk management, the Bank uses derivatives and other instruments. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability

to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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 investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Directors and the Executive body.

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.

Maximum exposure of credit risk: The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For financial assets on the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

	December 31, 2017	**December 31, 2016**
Cash and cash equivalents	35,824,831	32,059,829
Due from financial institutions	13,036,368	5,987,447
Reverse repurchase agreements	4,296,862	4,552,427
Financial assets at fair value through profit or loss	-	1,676
Loans to customers	104,216,558	77,314,109
Available-for-sale financial assets		
- Held by the Bank	2,036,091	2,879,255
- Pledged under repurchase agreements	19,619,097	13,169,605
Other assets	138,742	74,783
	179,168,549	**136,039,131**

The effect of offset is not significant in evaluation of credit risk. The Bank holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral held against credit risk exposure are discussed further in this note.

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

Risk concentrations of the maximum exposure to credit risk
The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved and reviewed by the Management Board. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantee. However, a portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Renegotiated loans and advances
Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan. The carrying amount of renegotiated loans to customers at December 31, 2017 and 2016 were AMD 3,568,988 thousand and AMD 2,356,513 thousand, respectively.

Geographical concentration
The geographical concentration of the Bank's financial assets at December 31, 2017 and 2016 is set out below:

	December 31, 2017			
	Republic of Armenia	**Non- OECD countries**	**OECD countries**	**Total**
Cash and cash equivalents	35,273,763	427,141	123,927	**35,824,831**
Amounts due from financial institutions	13,019,238	-	17,130	13,036,368
Reverse repurchase agreement	4,296,862	-	-	4,296,862
Loans to customers	104,216,558	-	-	104,216,558
Available-for-sale financial assets				
- Held by the Bank	2,036,091	-	-	**2,036,091**
- Pledged under repurchase agreements	19,619,097	-	-	**19,619,097**
Other financial assets	138,742	-	-	**138,742**
Total financial assets	**178,600,351**	**427,141**	**141,057**	**179,168,549**

	December 31, 2016			
	Republic of Armenia	**Non- OECD countries**	**OECD countries**	**Total**
Cash and cash equivalents	18,866,142	3,160,794	10,032,893	**32,059,829**
Amounts due from financial institutions	5,396,938	296,983	293,526	**5,987,447**
Reverse repurchase agreement	4,552,427	-	-	**4,552,427**
Loans to customers	77,314,109	-	-	**77,314,109**
Available-for-sale financial assets				
- Held by the Bank	2,879,255	-	-	**2,879,255**
- Pledged under repurchase agreements	13,169,605	-	-	**13,169,605**
Other financial assets	682,761	-	-	**682,761**
Total financial assets	**122,861,237**	**3,457,777**	**10,326,419**	**136,645,433**

The counterparties exposing the Bank to credit risk do not have external credit ratings. The Bank uses internal processes and policies for determining credit rating for counterparties and respective risk appetite.

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 Banks 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 by the Board of the Bank.

The exposure to any one borrower including financial institutions 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 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 are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and other fixed assets;
- Charges over financial instruments such as debt securities and equities;
- Cash and gold.

Long-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.

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

The initial valuation of collateral takes place during the credit approval process when the Bank collects information that enables to make a sound valuation. The value of collateral is the estimated amount at which it can be sold on the valuation date, adjusted for a haircut. The haircut is a measure of the risk that the Bank will not be able to sell collateral at a price equal to the expected market value. For real estate and property and equipment type the haircut usually ranges between 20% to 40% of the market value. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

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

	December 31, 2017	**December 31, 2016**
Loans collateralized by:		
Real estate	51,419,873	39,418,215
Guarantees	15,150,615	10,999,615
Gold	7,843,060	7,353,619
Cars	1,469,296	3,780,323
Cash deposit	874,675	1,023,456
Materials	43,402	843,556
Equipment	928	123,692
Gold bullion	3,889	1,567
Other collateral	10,186,828	98,296
Unsecured loans	18,829,112	15,218,253
	105,821,678	**78,860,592**
Less: allowance for impairment losses	(1,605,120)	(1,546,483)
Total loans and advance to customers	**104,216,558**	**77,314,109**

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.

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 that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans 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.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The credit quality of financial assets is managed by the Bank's internal credit ratings.

A methodology to determine credit ratings of borrowers has been developed in the Bank to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower’s rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria Banks: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Bank and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower’s scoring assessment has been developed in the Bank to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower’s parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

The Bank applies internal methodologies to specific corporate loans and Banks of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

The credit quality of loans to customers that are neither past due nor impaired based on historical information about counterparty default rates is provided below:

	December 31, 2017	December 31, 2016
Consumer	0.28%	0.34%
Trading	-	-
Manufacturing	-	-
Construction	-	-
Mortgage	-	-
Agriculture	0.08%	0.08%
Other sectors	0.12%	0.18%

The credit quality of loans to customers based on their performance is presented in Note17.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency, if available.

Past due but not impaired loans
Past due loans 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 in Note 17.

Loans individually impaired
At December 31, 2017 the total gross amount of individually impaired loans to customers before taking into consideration the cash flows from collateral held is AMD 647,120 thousand (December 31, 2016: AMD 787,795 thousand). See Note 16. Interest accrued on impaired loans during the year amounted to AMD 87,039 thousand.

Market risk
Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Bank is exposed to. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate risk
Interest rate risk is the negative effect of changes in market interest rates on the net interest income or economic value of equity of the Bank. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit and loss and equity. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at December 31, 2017 and December 31, 2016. The sensitivity of equity is analyzed by maturity of the asset or the swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

		2017		
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Sensitivity of equity**	**Total**
AMD	100	-	(220,567)	**(220,567)**
USD	100	(42,125)	-	**(42,125)**
AMD	(100)	-	220,567	**220,567**
USD	(100)	42,125	-	**42,125**

		2016		
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Sensitivity of equity**	**Total**
AMD	100	-	(220,567)	**(220,567)**
USD	100	(23,589)	-	**(23,589)**
AMD	(100)	-	220,567	**220,567**
USD	(100)	23,589	-	**23,589**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, which is evaluated for each individual foreign currency and for the whole portfolio of foreign currency assets and liabilities. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. The tables below indicate the currencies to which the Bank had significant exposure at December 31, 2017 on its non-trading foreign currency monetary assets and liabilities and its forecast cash flows.

The Bank's exposure to foreign currency exchange rate risk at December 31, 2017 is presented in the table below:

	AMD	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Non-derivative financial assets						
Cash and cash equivalents	28,901,286	5,301,299	863,948	298,400	459,898	35,824,831
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Due from financial institutions	1,685,883	11,168,357	30,009	152,119	-	13,036,368
Reverse repurchase agreements	4,296,862	-	-	-	-	4,296,862
Loans and advances to customers	53,384,410	45,599,407	5,231,062	1,679	-	104,216,558
Available-for-sale financial assets						
-Held by the Bank	1,937,530	98,561	-	-	-	2,036,091
-Pledged under repurchase agreements	19,619,097	-	-	-	-	19,619,097
Other financial assets	138,742	-	-	-	-	138,742
Total non-derivative financial assets	**109,963,810**	**62,167,624**	**6,125,019**	**452,198**	**459,898**	**179,168,549**
Non-derivative financial liabilities						
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Repurchase agreements	7,706	-	-	-	-	7,706
Debt securities issues	100,100	968,664	-	-	-	1,068,764
Loans from CBA and Government RA	4,411,627	-	-	-	-	4,411,627
Amounts due to financial institutions	14,822,737	-	-	-	-	14,822,737
Loans received from international financial institutions	-	15,689,094	4,607,660	-	-	20,296,754
Amounts due to customers	91,205,090	235,096	21,338	242,374	-	91,703,898
Other financial liabilities	315,404	-	-	-	-	315,404
Subordinated debt	3,747,051	2,662,550	-	-	-	6,409,601
Total non-derivative financial liabilities	**114,609,715**	**19,555,404**	**4,628,998**	**242,374**	**-**	**139,036,491**
Open balance sheet position	(4,656,150)	42,612,220	1,496,021	209,824	459,898	40,121,812
Financial instruments at fair value through profit or loss						
Gross settled currency swaps	730,079	(722,372)	-	-	-	7,706
Open position	(3,926,071)	41,889,848	1,496,021	209,824	459,898	40,114,106

The Bank's exposure to foreign currency exchange rate risk at December 31, 2016 is presented in the table below:

	AMD	USD	EUR	RUB	Other currencies	Total
Non-derivative financial assets						
Cash and cash equivalents	11,699,402	14,937,009	4,286,951	918,001	218,466	**32,059,829**
Financial assets at fair value through profit or loss	1,676	-	-	-	-	**1,676**
Due from financial institutions	2,475,928	2,861,303	159,209	491,007	-	**5,987,447**
Reverse repurchase agreements	4,552,427	-	-	-	-	**4,552,427**
Loans and advances to customers	35,601,523	41,333,572	538,796	38,482	-	**77,512,373**
Available-for-sale financial assets						
-Held by the Bank	2,879,255	-	-	-	-	**2,879,255**
-Pledged under repurchase agreements	13,169,605	-	-	-	-	**13,169,605**
Other financial assets	69,706	3,388	2,157	2	-	**75,253**
Total non-derivative financial assets	**58,748,444**	**59,135,272**	**4,987,113**	**1,447,492**	**218,466**	**104,176,360**
Non-derivative financial liabilities						
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Repurchase agreements	13,224,755	-	-	-	-	**13,224,755**
Loans from CBA and Government RA	2,989,000	-	-	-	-	**2,989,000**
Amounts due to financial institutions	5,962,440	7,486,463	235,019	322,140	-	**14,006,062**
Loans received from international financial institutions	336,877	13,751,014	-	-	-	**14,087,891**
Amounts due to customers	26,766,504	34,553,476	4,746,775	690,723	37,814	**66,795,292**
Other financial liabilities	130,936	125,358	3,562	120,652	20	**380,528**
Subordinated debt	2,722,721	2,677,451	-	-	-	**5,400,172**
Total non-derivative financial liabilities	**52,133,233**	**58,593,762**	**4,985,356**	**1,133,515**	**37,834**	**116,883,700**
Open balance sheet position	**18,278,680**	**541,510**	**1,757**	**313,977**	**180,632**	**19,316,556**
Financial instruments at fair value through profit or loss						
Gross settled currency swaps	1,676	-	-	-	-	**1,676**
Open position	**18,280,356**	**541,510**	**1,757**	**313,977**	**180,632**	**19,318,232**

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the AMD against the USD, EUR and RUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and equity where the AMD strengthens 10% against USD, EUR or RUR.

	2017			**2016**		
	Change in currency rate	**Effect on profit before tax**		**Change in currency rate**	**Effect on profit before tax**	
		Strengthening	**Weakening**		**Strengthening**	**Weakening**
USD	10%	72,900	(72,900)	10%	54,151	(54,151)
EUR	10%	309	(309)	10%	176	(176)
RUB	10%	25,090	(25,090)	10%	31,398	(31,398)

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in Bank's equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Liquidity risk

Liquidity is the ability of the Bank to carry out its assumed liabilities entirely and within reasonable terms.

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 CBA, 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 CBA.

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at December 31, 2017 and December 31, 2016 based on expected maturity dates. 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. Financial assets available-for-sale other than equity instruments are represented as on demand or less than one month as the Bank's management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities. Further, due to the Bank's covenant breaches with regards to its borrowed funds (note 25).

	December 31, 2017							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Total less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total over 12 months**	**Total**
Assets								
Cash and cash equivalents	35,824,831	-	-	**35,824,831**	-	-	**-**	35,842,831
Financial assets at fair value through profit or loss	-	-	-	**-**	-	-	**-**	-
Amounts due from financial institutions	7,062,883	437,162	1,650,374	**9,150,419**	3,567,805	318,144	**3,885,948**	13,036,368
Reverse repurchase agreements	4,296,862	-	-	**4,296,862**	-	-	**-**	4,296,862
Loans to customers	2,436,360	3,563,385	15,301,124	**21,300,869**	42,590,654	40,325,035	**82,915,689**	104,216,558
Available-for-sale financial assets	-	-	-	**-**	-	-	**-**	-
- Held by the Bank	-	364,623	1,195	**365,818**	1,037,870	632,403	**1,670,273**	2,036,091
- Pledged under repurchase agreements	-	-	-	**-**	10,311,852	9,307,245	**19,619,097**	19,619,097
Other financial assets	-	92,271	-	**92,271**	-	-	**-**	92,271
	49,620,936	4,457,441	16,952,693	**71,031,070**	57,508,181	50,582,827	**108,091,007**	179,140,078
Liabilities								
Financial liabilities at fair value through profit or loss								
Repurchase agreements	-	-	20,511,989	**20,511,989**	-	-	**-**	20,511,989
Loans from CBA and Government RA	2,980	78,900	1,833,744	**1,915,624**	2,496,003	-	**2,496,003**	4,411,627
Amounts due to financial institutions	135,964	1,298,058	2,270,403	**3,704,426**	10,242,259	876,052	**11,118,312**	13,946,685
Loans and deposits from international financial institutions	59,398	567,078	991,862	**1,618,338**	18,295,698	382,718	**18,678,416**	19,914,036
Amounts due to customers	57,571,597	2,043,161	11,305,543	**70,920,302**	15,025,023	5,758,573	**20,783,596**	91,703,898
Other financial liabilities	-	104,911	210,493	**315,404**	-	-	**-**	315,404
Subordinated debt	-	-	-	**-**	-	6,409,601	**6,409,601**	6,409,601
	57,769,940	4,092,109	37,124,034	**98,986,082**	46,058,984	7,017,343	**59,485,927**	157,213,240
Net position	(8,159,251)	365,332	(20,171,341)	**(27,965,258)**	11,449,197	-	48,605,080	21,916,591
Accumulated gap	-	-	-	**-**	-	-	-	

	December 31, 2016							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total less than 12 months	From 1 to 5 years	More than 5 years	Total over 12 months	Total
Assets								
Cash and cash equivalents	32,059,553	276	-	**32,059,829**	-	-	**-**	**32,059,829**
Financial assets at fair value through profit or loss	1,676	-	-	**1,676**	-	-	**-**	**1,676**
Amounts due from financial institutions	3,440,587	211,805	732,653	**4,385,045**	-	1,602,402	**1,602,402**	**5,987,447**
Reverse repurchase agreements	4,552,427	-	-	**4,552,427**	-	-	**-**	**4,552,427**
Loans to customers	2,531,859	7,084,151	10,464,390	**20,080,400**	30,753,118	26,480,591	**57,223,709**	**77,314,109**
Available-for-sale financial assets								
- Held by the Bank	-	-	-	**-**	**-**	2,879,255	**2,879,255**	**2,879,255**
- Pledged under repurchase agreements	13,169,605	-	-	**13,169,605**	-	-	**-**	**13,169,605**
Other financial assets	69,706	-	-	**69,706**	-	-	**-**	**69,706**
	55,825,413	**7,296,232**	**11,197,043**	**74,318,688**	**30,753,118**	**30,962,248**	**61,715,366**	**136,034,054**
Liabilities								
Financial liabilities at fair value through profit or loss								
Repurchase agreements	-	13,224,755	-	**13,224,755**	-	-	**-**	**13,224,755**
Loans from CBA and Government RA	30,288	5,527	909,980	**945,795**	2,043,205	-	**2,043,205**	**2,989,000**
Amounts due to financial institutions	5,310,710	1,095,625	5,300,125	**11,706,460**	1,506,214	793,388	**2,299,602**	**14,006,062**
Loans and deposits from international financial institutions	14,087,891	-	-	**14,087,891**	-	-	**-**	**14,087,891**
Amounts due to customers	32,670,383	6,451,891	21,843,091	**60,965,365**	5,648,943	180,984	**5,829,927**	**66,795,292**
Other financial liabilities	302,760	72,571	5,197	**380,528**	-	-	**-**	**380,528**
Subordinated debt	38,502	-	-	**38,502**	-	5,361,670	**5,361,670**	**5,400,172**
	52,440,534	**20,850,369**	**28,058,393**	**101,349,296**	**9,198,362**	**6,336,042**	**15,534,404**	**116,883,700**
Net position	3,384,879	**(13,554,137)**	**(16,861,350)**	**(27,030,608)**	**21,554,756**	**24,626,206**	**46,180,962**	**19,150,354**
Accumulated gap	**3,384,879**	**(10,169,258)**	**(27,030,608)**	**(27,030,608)**	**(5,507,914)**	**19,150,354**	**19,150,354**	

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2017 based on contractual undiscounted repayment obligations.

	Demand and less than 1 month	From 1 month to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative financial liabilities						
Repurchase agreements	-	-	20,511,989	-	-	**20,511,989**
Loans from CBA and Government RA	2,980	78,900	1,833,744	2,890,424	-	**4,806,048**
Amounts due to financial institutions	135,964	1,298,058	2,270,403	10,800,560	1,209,580	**14,504,985**
Loans and deposits from international financial institutions	59,398	567,078	991,862	19,980,468	499,800	**22,098,606**
Amounts due to customers	57,571,597	2,043,161	11,305,543	16,500,498	6,200,446	**93,621,245**
Other financial liabilities	-	104,911	210,493	-	-	**315,404**
Subordinated debt	-	-	-	-	6,800,590	**6,800,590**
Total undiscounted non-derivative financial liabilities	**57,769,939**	**4,092,108**	**37,124,034**	**50,171,950**	**13,500,836**	**162,658,657**
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	-	-	-	-	-	-
Outflow	-	-	-	-	-	-

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2016 based on contractual undiscounted repayment obligations.

	Demand and less than 1 month	From 1 month to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative financial liabilities						
Repurchase agreements	-	13,224,755	-	-	-	**13,224,755**
Loans from CBA and Government RA	13,179	5,552	912,506	2,051,276	-	**2,982,513**
Amounts due to financial institutions	5,310,710	1,095,625	5,300,125	1,506,214	793,388	**14,006,062**
Loans and deposits from international financial institutions	14,087,891	-	-	-	-	**14,087,891**
Amounts due to customers	32,670,383	6,451,891	21,843,091	5,648,943	180,984	**66,795,292**
Other financial liabilities	302,760	72,571	5,197	-	-	**380,528**
Subordinated debt	38,502	-	-	-	5,361,670	**5,400,172**
Total undiscounted non-derivative financial liabilities	**52,423,425**	**20,850,394**	**28,060,919**	**9,206,433**	**6,336,042**	**116,877,213**
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	845,600	-	-	-	-	**845,600-**
Outflow	(845,600)	-	-	-	-	**(845,600)**

Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.
The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

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

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.