Financial Statements
and Independent Auditor's Report

“Artsakhbank” Closed Joint Stock Company

31 December 2017

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Independent auditor's report

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To the Shareholders and Board of Directors of Closed Joint Stock Company "Artsakhbank"

Opinion

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

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

Basis for Opinion

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

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Gagik Gyulbudaghyan	Armen Hovhannisyan
Managing Partner	Engagement Partner

25 April 2018

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Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	12,149,920	10,864,006
Interest and similar expense	6	(6,734,618)	(6,771,863)
Net interest income		5,415,302	4,092,143
Fee and commission income	7	400,037	359,536
Fee and commission expense	7	(122,732)	(91,961)
Net fee and commission income		277,305	267,575
Net trading income	8	418,777	619,473
Other income	9	244,893	614,932
Impairment reversal	10	1,185,818	865,600
Net gains/(losses) from foreign currency translation of non-trading assets and liabilities		24,591	(94,716)
Staff costs	11	(2,033,362)	(1,897,859)
Depreciation of property, plant and equipment	20	(247,165)	(311,419)
Amortization of intangible assets	21	(26,982)	(27,618)
Other expenses	12	(1,172,222)	(1,674,142)
Profit before income tax		4,086,955	2,453,969
Income tax (expense)/recovery	13	(676,782)	425,999
Profit for the year		3,410,173	2,879,968
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains/(loss) from changes in fair value from available-for-sale financial assets		2,875	(350)
Other comprehensive income for the year		2,875	(350)
Total comprehensive income for the year		3,413,048	2,879,618

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016
Assets			
Cash and cash equivalents	14	19,493,573	10,993,034
Amounts due from financial institutions	15	16,077,157	3,065,140
Investments available for sale	16	58,958	54,589
Investments held to maturity	17	23,121,599	14,789,086
Securities pledged under repurchase agreements	18	-	2,802,317
Loans to customers	19	71,162,381	64,509,658
Property, plant and equipment	20	3,158,168	3,368,553
Intangible assets	21	52,284	56,652
Repossessed assets	22	2,516,104	2,077,390
Prepaid income taxes		11,013	271,013
Deferred tax assets	13	-	351,124
Other assets	23	697,131	1,136,235
Total asstes		136,348,368	103,474,791
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	8,289,425	10,322,069
Amounts due to customers	25	90,413,523	59,138,224
Deferred income tax liabilities	13	65,658	-
Subordinated debt	26	7,731,064	7,729,539
Other liabilities	27	339,681	188,990
Total liabilities		106,839,351	77,378,822
Equity			
Share capital	28	23,261,150	23,261,150
Statutory general reserve		801,232	657,233
Revaluation reserve of financial assets available for sale		2,525	(350)
Other reserves		1,541,289	1,541,289
Retained earnings		3,902,821	636,647
Total equity		29,509,017	26,095,969
Total liabilities ans equity		136,348,368	103,474,791

The financial statements from pages 5 to 59 were signed by the Bank's Executive Director and Chief Accountant on 25 April 2018:

Artak Balayan
Executive Director

Ruzan Khachatryan
Chief Accountant

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of PPE	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of 1 January 2016	11,061,150	657,233	1,541,289	-	(2,243,321)	11,016,351
Increase in share capital	12,200,000	-	-	-	-	12,200,000
Transactions with owners	12,200,000	-	-	-	-	12,200,000
Profit for the year	-	-	-	-	2,879,968	2,879,968
Other comprehensive income						
Net unrealized loss from changes in fair value	-	-	-	(350)	-	(350)
Total comprehensive income for the year	-	-	-	(350)	2,879,968	2,879,618
Balance As of 31 December 2016	23,261,150	657,233	1,541,289	(350)	636,647	26,095,969
Increase in share capital	-	-	-	-	-	-
Distribution to reserve	-	143,999	-	-	(143,999)	-
Transactions with owners	-	143,999	-	-	(143,999)	-
Profit for the year	-	-	-	-	3,410,173	3,410,173
Other comprehensive income						
Net unrealized gains from changes in fair value	-	-	-	2,875	-	2,875
Total comprehensive income for the year	-	-	-	2,875	3,410,173	3,413,048
Balance as of 31 December 2017	23,261,150	801,232	1,541,289	2,525	3,902,821	29,509,017

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit before tax	4,086,955	2,453,969
Adjustments for:		
Amortization and depreciation allowances	274,147	339,037
Gain from sale of PPE	(3,569)	(6,633)
Impairment reversal	(1,185,818)	(865,600)
Net (gains)/loss from foreign currency translation of non-trading assets and liabilities	(24,591)	94,716
Interest receivable	(258,349)	(562,713)
Interest payable	455,855	70,999
Net loss from sale and impairment of other assets	160,975	625,826
Net gains from changes in fair value of derivative instruments	-	(129,072)
Cash flows from operating activities before changes in operating assets and liabilities	3,505,605	2,020,529
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	(13,019,113)	(805,262)
Purchase of investment securities	(5,285,460)	(9,453,805)
Loans to customers	(6,581,277)	(825,804)
Repossessed assets	515,203	(162,834)
Other assets	537,978	9,196
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	(2,168,191)	(16,025,713)
Amounts due to customers	30,643,590	8,942,135
Derivative instruments	-	129,274
Other liabilities	129,736	(27,398)
Net cash from/(used in) operating activities	8,278,071	(16,199,682)
Cash flows from investing activities		
Purchase of property, plant and equipment	(90,727)	(91,639)
Sale of property, plant and equipment	4,016	38,063
Purchase of intangible assets	(22,614)	(9,457)
Net cash used in investing activities	(109,325)	(63,033)

Statement of cash flows (continued)

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flow from financing activities		
Proceeds from subordinated debt	-	2,424,226
Long term loans	126,337	(158,972)
Increase in share capital	-	12,200,000
Net cash from/ (used in) financing activities	126,337	14,465,254
Net increase/(decrease) in cash and cash equivalents	8,295,083	(1,797,461)
Cash and cash equivalents at the beginning of the year	10,993,034	12,781,907
Exchange differences on cash and cash equivalents	205,456	8,588
Cash and cash equivalents at the end of the year (note 14)	19,493,573	10,993,034
Supplementary information:		
Interest received	11,891,571	10,301,293
Interest paid	(6,278,763)	(6,700,864)

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

“Artsakhbank”(the “Bank”) is a Closed Joint Stock Company incorporated in the Republic of Armenia in 1996. The Bank is regulated by the legislation of RA and conducts its business under license number 75, granted on 14 August 1996 by the Central Bank of Armenia (the “CBA”).

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

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

The Bank has 23 branches through which implements its activity. The main office of the Bank is in Yerevan, 1b, Charents Str.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

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

3.5 Standards and interpretations not yet applied by the Bank

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

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

IFRS 9 Financial Instruments (2014)

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

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

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

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

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

Classification – Financial assets and Financial liabilities

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

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

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

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

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

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

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

– Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

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

– The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9.

The classification and measurement assessment as at 31 December 2017 may not necessarily represent the impact on the Bank's financial statements as at 1 January 2018 because IFRS 9 requires the business model assessment to be undertaken based on the facts and circumstances that exist at the date of initial application, which will be 1 January 2018 for the Bank.

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

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

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

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

Impairment – Financial assets, loan commitments and financial guarantee contracts

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

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

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

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

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

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

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

– Definition of default.

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

– probability of default (PD);

– loss given default (LGD); and

– exposure at default (EAD).

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

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

Transition

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

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

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

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

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

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 16 Leases

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

IFRS 16 also:

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

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

Other standards

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income and expenses

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

Net trading income

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

4.2 Foreign currency

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

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

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

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

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

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

4.3 Taxation

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

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

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates.

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

4.6 Amounts due from other financial institutions

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

Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

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

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

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

The Bank classified its financial assets into the following categories: financial instruments at fair value through profit or loss, receivables and loans, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

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

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

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

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

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

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

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

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

Available-for-sale financial assets

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

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

4.8 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the comprehensive statement on income, is transferred from equity to the statement of profit or loss and other comprehensive income.

Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.11 Leases

Operating - Bank as lessee

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

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation except land and buildings, which are stated at fair values. The Bank's building is stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	30	3.33
Computers	3	33.3
ATMs	10	10
Vehicles	5	20
Other fixed assets	5	20

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

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

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

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

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

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

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

4.14 Repossessed assets

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

4.15 Grants

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

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 Provisions

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

4.19 Equity

Share capital

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

Retained earnings

Include accumulated profit of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for available-for-sale investments

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

4.20 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (Refer to note 31).

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (Refer to note 30).

Impairment of loans and advances

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 29.

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

Impairment of available-for-sale equity investments

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

6 Interest and similar income and expense

In thousand Armenian drams	**2017**	**2016**
Loans to customers	9,478,853	8,984,443
Debt securities available-for-sale	1,854,527	1,097,858
Amounts due from other financial institutions	87,886	21,135
Reverse repurchase transactions	690,251	242,554
Interest accrued on impaired financial assets	38,403	518,016
Total interest and similar income	12,149,920	10,864,006
Amounts due to customers	5,135,710	4,455,851
Amounts due to financial institutions	749,363	1,188,285
Repurchase transactions	25,425	513,879
Subordinated debt	824,120	613,848
Total interest and similar expense	6,734,618	6,771,863

7 Fee and commission income and expense

In thousand Armenian drams	2017	2016
Wire transfer operations	214,334	208,282
Plastic cards operations	178,682	144,762
Guarantees and letters of credit	7,021	6,492
Total fee and commission income	400,037	359,536
Wire transfer and cash operations	17,185	11,169
Plastic cards operations	105,547	80,792
Total fee and commission expense	122,732	91,961

8 Net trading income

In thousand Armenian drams	2017	2016
Gains less losses from trading in foreign currencies	418,777	323,241
Gains less losses from derivative instruments	-	167,160
Gains less losses from fair value changes of derivative instruments	-	129,072
Total net trading income	418,777	619,473

9 Other income

In thousand Armenian drams	2017	2016
Fines and penalties received	202,923	568,389
Gains less losses from operations with precious metals	15,425	17,952
Gains less losses from disposal of property, plant and equipment	3,569	9,747
Income from grants (Note 27)	476	476
Other income	22,500	18,368
Total other income	244,893	614,932

10 Impairment charge/(reversal)

In thousand Armenian drams	2017	2016
Loans to customers (Note 19)	(1,177,165)	(3,148,883)
Other assets (Note 23)	(27,160)	2,283,283
Cash and cash equivalents (Note 14)	18,507	-
Total impairment charge/(reversal) of assets	(1,185,818)	(865,600)

11 Staff costs

In thousand Armenian drams	2017	2016
Salaries and other similar payments	2,031,302	1,896,193
Other expenses	2,060	1,666
Total staff costs	2,033,362	1,897,859

12 Other expenses

In thousand Armenian drams	2017	2016
Operating lease	213,629	195,704
Fixed assets maintenance	166,612	174,007
Taxes, other than income tax, duties	145,769	140,994
Security	128,492	119,503
Net loss from disposal and remission of other assets	-	590,198
Impairment loss on deferred collaterals	160,975	35,628
Deposit Insurance expenses	86,250	76,040
Communications	64,389	70,292
Consulting and other services	12,000	34,649
Advertising costs	34,202	32,954
Payment system services	35,583	32,260
Office supplies	20,909	22,135
Charitable distributions	-	23,644
Business trip expenses	12,303	9,907
Loan extension expenses	18,532	17,297
Cash collection expenses	20,615	16,966
Penalties paid	4,158	10,593
Net loss from disposal of property, plant and equipment	-	3,114
Other expenses	47,804	68,257
Total other expense	1,172,222	1,674,142

13 Income tax expense/(recovery)

In thousand Armenian drams	2017	2016
Current tax expense	260,000	-
Deferred tax/(recovery)	416,782	(425,999)
Total income tax expense/(recovery)	676,782	(425,999)

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

Numerical reconciliation between the income tax expenses/ (recovery) and accounting profit is provided below:

In thousand Armenian drams	2017	Effective rate (%)	2016	Effective rate (%)
Profit before tax	4,086,955		2,453,969	
Income tax at the rate of 20%	817,391	20	490,794	20
Taxable income			-	-
Non-deductible expenses	13,853	-	128,679	5
Foreign exchange (gains)/losses	(4,918)	-	18,943	1
Non-taxable income	(3,371)	-	-	-
Use of accumulated tax losses	(146,173)	(3)	(1,210,588)	(49)
Effect of the unrecognized deffered tax asset from the accumulated tax losses	-	-	146,173	6
Income tax expense/(recovery)	676,782	17	(425,999)	(17)

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2016	Recognized in profit or loss	As of 31 December 2017
Loans to customers	97,057	(76,989)	20,068
Repossessed assets	62,866	36,266	99,132
Amounts due to customers	1,461	(1,461)	-
Other liabilities	16,954	24,125	41,079
Transferred tax losses	526,173	(526,173)	-
Total deferred tax assets	704,511	(544,232)	160,279
Tax asset evaluation	(146,173)	146,173	-
Total deferred tax assets	558,338	(398,059)	160,279
Amounts due from financial institutions	(1,302)	(31,998)	(33,300)
Property, plant and equipment	(205,912)	14,139	(191,773)
Amounts due to customers	-	(864)	(864)
Total deferred tax liability	(207,214)	(18,723)	(225,937)
Net deferred tax asset/(liability)	351,124	(416,782)	(65,658)

In thousand Armenian drams	As of 31 December 2015	Recognized in profit or loss	As of 31 December 2016
Loans to customers	71,245	25,812	97,057
Repossessed assets	55,740	7,126	62,866
Amounts due to customers	-	1,461	1,461
Other liabilities	18,860	(1,906)	16,954
Transferred tax losses	1,210,588	(684,415)	526,173
Total deferred tax assets	1,356,433	(651,922)	704,511
Tax asset estimation	(1,210,588)	1,064,415	(146,173)
Total deferred tax assets	145,845	412,493	558,338
Amounts due from financial institutions	(1,631)	329	(1,302)
Property, plant and equipment	(219,089)	13,177	(205,912)
Total deferred tax liability	(220,720)	13,506	(207,214)
Net deferred tax asset/(liability)	(74,875)	425,999	351,124

14 Cash and cash equivalents

In thousand Armenian drams	2017	2016
Cash on hand	1,907,200	1,440,888
Correspondent account with the CBA	8,669,354	8,946,057
Correspondent accounts with other banks	914,061	606,089
Deposits for less than 90 days in the CBA	8,002,958	-
Total cash and cash equivalents	19,493,573	10,993,034

Correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as of 31 December is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in AMD. As of 31 December 2017 these obligations amount to AMD 6,724,276 thousand (2016: AMD 7,042,145 thousand). 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 and mandatory reserve deposits in the CBA are non-interest bearing.

As of 31 December 2017 the amounts of correspondent accounts in amounts of AMD 866,213 thousand (94.77%) (2016: AMD 478,536 thousand from two commercial banks (78.95%)) were due from two commercial banks, which represent significant concentration.

Non-cash transactions performed by the Bank during 2017 represent the repayment of the loans in the amount of AMD 1,114,892 thousand by confiscation of collateral (2016: AMD 307,549 thousand).

The movement in allowance for impairment losses on cash and cash equivalents was as follows:

In thousand Armenian drams	Total
At 1 January 2016	-
Net charge for the year	-
Amounts written off	-
At 31 December 2016	-
Net charge for the year	18,507
Amounts written off	(18,507)
At 31 December 2017	-

15 Amounts due from other financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Deposited funds with CBA	270,000	220,000
Reverse repurchase agreements	15,704,713	2,735,249
Payment systems	31,623	44,804
Other accounts	70,821	65,087
Total amounts due from financial institutions	16,077,157	3,065,140

As of 31 December 2017 other accounts include blocked deposit for the Bank's membership to MasterCard payment system in the amount of AMD 70,821 thousand (2016: AMD 65,087 thousand).

Deposited funds with CBA include a blocked deposit for settlements via ArCa payment system.

Fair value of assets pledged and carrying value of loans and securities under repurchase agreements as of 31 December 2017 are presented as follows:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds under reverse repurchase agreements	15,778,547	15,704,713	2,851,505	2,735,249

16 Investments available-for-sale

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
RA equity shares-quoted	27,501	24,625
RA equity shares-unquoted	31,457	29,964
Total investments	58,958	54,589

All unquoted RA equity shares are recorded at cost less allowances for impairment since their fair value cannot be reliably estimated.

17 Investments held-to-maturity

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
RA state bonds	9,145,666	4,826,249
RA corporate bonds	13,975,933	9,962,837
Total investments	23,121,599	14,789,086

As of 31 December 2017 the RA corporate bonds at the amount of AMD 13,833,987 thousand (as of 31 December 2016: AMD 9,590,261 thousand) has been issued by the Bank's related parties and the parties related to them.

Held-to-maturity investments by nominal interest rates and maturity date comprise:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	%	Maturity	%	Maturity
RA state bonds	8.00-13.00	2018-2032	8.00-13.00	2017-2032
RA corporate bonds	7.50-12.00	2018-2022	7.50-12.00	2017-2021

As at 31 December 2017 RA state bonds at the amount of AMD 2,802,317 thousand were pledged for the Bank's liabilities of repurchase agreements (refer to note 18).

18 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset	
	As of 31 December 2017	As of 31 December 2016
RA state bonds (Note 17)	-	2,802,317
Total investments	-	2,802,317

Borrowings with securities pledged under reverse repurchase agreements amounted to AMD 2,992,276 thousand as at 31 December 2016 (refer to note 24).

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparty.

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

19 Loans to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans	70,565,212	60,765,070
Factoring	459,162	446,595
Overdrafts	1,243,194	5,842,364
	72,267,568	67,054,029
Less allowance for loan impairment	(1,105,187)	(2,544,371)
Total loans to customers	71,162,381	64,509,658

As of 31 December 2017 the weighted average effective interest rates on loans to customers was 16.36% for loans in AMD (2016: 16.01%) and 13.36% for loans in USD, EUR and other freely convertible currencies (2016: 12.99%).

During the year ended at 31 December 2017 the Bank obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets amounted to AMD 2,578,017 thousand (2016: AMD 2,077,390 thousand) (refer to note 22). The Bank intends to sell these assets in a short period.

As of 31 December 2017 the Bank has two borrowers (as of 31 December 2016: three), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2017 amounts to AMD 45,456,227 thousand (2016: AMD 44,811,502 thousand). Moreover, AMD 40,756,545 thousand or 56.4% of the gross loan portfolio is concentrated to single borrower related to the Bank and parties related to them (as of 31 December 2016: AMD 36,689,551 thousand or 54.7% of the gross loan portfolio).

Loans to customers by economy sectors may be specified as follows:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Industry	3,692,984	2,179,197
Agriculture	805,471	222,753
Construction	3,405,455	3,961,868
Trading	867,098	2,088,154
Service	1,862,263	1,928,554
Consumer	7,048,332	6,835,372
Mortgage	8,604,308	9,384,616
Other*	45,981,657	40,453,515
	72,267,568	67,054,029
Less allowance for loans impairment	(1,105,187)	(2,544,371)
Total loans	71,162,381	64,509,658

*As of 31 December 2017 the financing for state institutions at the amount of AMD 40,756,545 thousand were included in other sectors (as of 31 December 2016: AMD 36,689,551 thousand).

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

In thousand Armenian drams	Industry	Agriculture	Construc-tion	Trading	Service	Con-sumer	Mortgage	Other	Total
									2017
As of 1 January 2017	183,858	4,010	1,636,307	135,730	77,735	83,979	365,753	56,999	2,544,371
Charge/(Reversal) for the year	59,594	(62,017)	(703,775)	(351,210)	(24,291)	(221,046)	(169,975)	295,555	(1,177,165)
Amounts written off	(117,144)	(8,198)	(1,025,673)	(26,105)	(9,503)	(233,400)	(299,386)	(37,023)	(1,756,432)
Recoveries	98,979	74,260	127,195	269,635	10,132	442,021	327,905	144,286	1,494,413
At 31 December 2017	225,287	8,055	34,054	28,050	54,073	71,554	224,297	459,817	1,105,187
Individual impairment	13,524	-	-	6,958	-	1,133	16,237	-	37,852
Collective impairment	211,763	8,055	34,054	21,092	54,073	70,421	208,060	459,817	1,067,335
	225,287	8,055	34,054	28,050	54,073	71,554	224,297	459,817	1,105,187
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	313,406	-	-	13,917	-	6,183	22,876	-	356,382

In thousand Armenian drams	Industry	Agriculture	Construc-tion	Trading	Service	Consumer	Mortgage	Other	Total
									2016
As of 1 January 2016	193,590	93,760	1,150,168	158,711	201,709	414,526	216,999	57,202	2,486,665
Charge/(Reversal) for the year	(12,823)	(82,736)	(1,767,263)	82,933	(661,507)	(1,393,974)	668,688	17,799	(3,148,883)
Amounts written off	(78,852)	(21,688)	(6,238)	(282,943)	(21,134)	(604,137)	(817,582)	(28,430)	(1,861,004)
Recoveries	81,943	14,674	2,259,640	177,029	558,667	1,667,564	297,648	10,428	5,067,593
At 31 December 2016	183,858	4,010	1,636,307	135,730	77,735	83,979	365,753	56,999	2,544,371
Individual impairment	18,206	-	1,633,014	-	3,125	2,214	64,130	-	1,720,689
Collective impairment	165,652	4,010	3,293	135,730	74,610	81,765	301,623	56,999	823,682
	183,858	4,010	1,636,307	135,730	77,735	83,979	365,753	56,999	2,544,371
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	108,544	-	3,632,597	-	15,468	14,491	244,538	-	4,015,638

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Individuals	15,905,553	16,425,381
Privately held companies	13,884,558	13,604,448
Sole proprietors	343,041	505,673
State owned enterprises	42,134,416	36,518,527
	72,267,568	67,054,029
Less allowance for loan impairment	(1,105,187)	(2,544,371)
Total loans	71,162,381	64,509,658

Loans to individuals comprise the following products:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Mortgage loans	8,604,308	9,384,616
Plastic card loans	2,933,061	2,791,971
Consumer loans	1,770,964	1,734,268
Gold secured loans	2,339,755	2,289,213
Car loans	4,597	12,779
Agriculture	242,660	188,978
Other	10,208	23,556
Total loans to individuals (gross)	15,905,553	16,425,381

As of 31 December 2017 and 31 December 2016 the estimated fair value of loans to customers approximates their carrying value.

Maturity analysis of loan portfolio are disclosed in note 33.

Credit, currency, liquidity risk analyses of loan portfolio are disclosed in note 34. The information on related party balances is disclosed in note 30.

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Machinery and equipment	Vehicles	Equipment	Capital Investments in PPE	Total
Cost and revalued amount							
At 1 January 2016	4,667,326	127,135	1,052,955	227,844	617,242	202,318	6,894,820
Additions	-	2,368	13,464	47,984	22,875	4,948	91,639
Disposals	-	(28,258)	(40,349)	(106,954)	(95,475)	(4,511)	(275,547)
Reclassifications	163,473	-	-	-	39,282	(202,755)	-
At 31 December 2016	4,830,799	101,245	1,026,070	168,874	583,924	-	6,710,912
Additions	-	-	70,744	835	19,148	-	90,727
Disposals	-	-	(9,712)	(24,276)	(9,700)	-	(43,688)
Reclassifications	(61,913)	-	-	-	-	-	(61,913)
At 31 December 2017	4,768,886	101,245	1,087,102	145,433	593,372	-	6,696,038
Accumulated depreciation							
At 1 January 2016	1,773,882	31,060	884,967	149,843	438,419	-	3,278,171
Charge for the year	137,197	14,015	33,385	27,024	99,798	-	311,419
Disposals	-	(28,256)	(39,510)	(84,148)	(95,317)	-	(247,231)
At 31 December 2016	1,911,079	16,819	878,842	92,719	442,900	-	3,342,359
Chaarge for the year	142,167	8,911	24,348	19,437	52,302	-	247,165
Disposals	-	-	(9,712)	(23,829)	(9,700)	-	(43,241)
Reclassifications	(8,413)	-	-	-	-	-	(8,413)
At 31 December 2017	2,044,833	25,730	893,478	88,327	485,502	-	3,537,870
Carrying amount							
At 31 December 2016	2,919,720	84,426	147,228	76,155	141,024	-	3,368,553
At 31 December 2017	2,724,053	75,515	193,624	57,106	107,870	-	3,158,168

Revaluation of assets

The buildings and land owned by the Bank were revalued by an independent appraiser as of 31 December 2011 using comparative, cost and income methods resulting in a revaluation of AMD 1,926,611 thousand. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal

For the fair value hierarchy of PPE refer to note 31.3

The management believes that at 31 December 2017 the fair value of the buildings does not differ significantly from their revalued amounts.

Reclassification of assets

The Bank has reclassified the building to further dispose of other assets.

Fully depreciated items

As of 31 December 2017 fixed assets included fully depreciated assets in amount of AMD 435,295 thousand (2016: AMD 490,916 thousand).

Fixed assets in the phase of installation

As of 31 December 2017 fixed assets included assets in the phase of installation in amount of AMD 125,809 thousand (2016: AMD 92,520 thousand).

Restrictions on title of fixed assets

As of 31 December 2017, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2017 the Bank did not have contractual commitments payable by 2018 (2016: nil).

21 Intangible assets

In thousand Armenian drams	Licenses	Computer software	Other	Total
Cost				
At 1 January 2016	18,865	128,498	3,375	150,738
Additions	8,457	1,000	-	9,457
Disposals	(7,997)	(4,172)	(2,295)	(14,464)
Reclassifications	23,161	(23,161)	-	-
At 31 December 2016	42,486	102,165	1,080	145,731
Additions	22,614	-	-	22,614
Disposals	(8,961)	-	-	(8,961)
At 31 December 2017	56,139	102,165	1,080	159,384
Accumulated amortisation				
At 1 January 2016	6,879	65,092	840	72,811
Amortisation charge	10,330	17,180	108	27,618
Disposals	(7,997)	(3,353)	-	(11,350)
Reclassifications	12,733	(12,733)	-	-
At 31 December 2016	21,945	66,186	948	89,079
Amortisation charge	9,926	16,947	109	26,982
Disposals	(8,961)	-	-	(8,961)
At 31 December 2017	22,910	83,133	1,057	107,100
Carrying amount				
At 31 December 2016	20,541	35,979	132	56,652
At 31 December 2017	33,229	19,032	23	52,284

Fully amortized items

As of 31 December 2017 the Bank has not possess intangible assets included fully amortized assets (2016: nil).

Restrictions on title of intangible assets

As of 31 December 2017 the Bank has not possessed any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2017 the Bank had no contractual commitments (2016: nil).

22 Repossessed assets

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

In thousand Armenian drams	**2017**	**2016**
Property	2,446,343	2,007,948
Vehicles	4,872	7,253
Other	64,889	62,189
Total repossessed assets	2,516,104	2,077,390

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

23 Other assets

In thousand Armenian drams	**As of 31 December 2017**	**As of 31 December 2016**
Debtors and other receivables	362,476	981,939
	362,476	981,939
Allowance for impairment on other assets	(10,777)	(45,096)
Total other financial assets	351,699	936,843
Prepayments	109,492	14,034
Precious metals	123,110	127,104
Materials	28,246	25,691
Other assets	84,584	32,563
Total non-financial assets	345,432	199,392
Total other assets	697,131	1,136,235

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

In thousand Armenian drams	Total
At 1 January 2016	29,387
Charge for the year	2,283,283
Amounts written off	(2,322,902)
Recoveries	55,328
At 31 December 2016	45,096
Reversal for the year	(27,160)
Amounts written off	(43,004)
Recoveries	35,845
At 31 December 2017	10,777

AMD 2,249,422 thousand included in the total amount of other assets written-off in 2016 is the amount receivable on the remitted loans (recognized as impaired on the day of the signature of the transaction) in accordance with the remittance contract with the right of demand from one person.

24 Amounts due to financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Repurchase agreements with the CBA	-	2,992,276
Correspondent accounts of other banks	1,184	166,268
Deposits from other financial institutions	5,360,855	4,367,359
Bank accounts from other financial institutions	55,147	13,042
Loans from other financial institutions	2,870,993	2,781,547
Other amounts	1,246	1,577
Total amounts due to financial institutions	8,289,425	10,322,069

As of 31 December 2017 the Bank has four borrowers (as of 31 December 2016: single borrower), whose loans and deposit balances exceed 10% of the Bank's equity. The total value of these amounts as of 31 December 2017 amounts to AMD 7,429,775 thousand (as of 31 December 2016: AMD 5,742,984 thousand).

All deposits and loans from banks and financial institutions have fixed interest rates.

As of 31 December 2017 the average effective interest rates on amounts due to the financial institutions was 9.22% for borrowings in AMD (2016: 9.23%). There are no borrowings in USD, EUR and other freely convertible currencies (2016: 8.38%).

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

25 Amounts due to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Government of the RA		
Current/Settlement accounts	537,479	714,233
Loans received	195,237	68,900
	732,716	783,133
Legal entities		
Current/Settlement accounts	21,738,269	3,490,695
Time deposits	19,310,175	17,081,663
	41,048,444	20,572,358
Indivisuals		
Current/Settlement accounts	8,516,949	6,495,392
Time deposits	40,115,414	31,287,341
	48,632,363	37,782,733
Total amounts due to customers	90,413,523	59,138,224

Customers' deposits carry fixed interest rates.

As of 31 December 2017 included in amounts due to customers are deposits amounting to AMD 6,539,264 thousand (2016: AMD 6,382,468 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates the carrying amount.

As of 31 December 2017 the aggregate balance of top two customers of the Bank (including related parties, see note 30) amounts to AMD 40,596,225 thousand (2016: 23,418,549 thousand) or 41.36% of total customer accounts and subordinated debt (2016: 35.44%). The amount of top two customers does not include amounts due to RA Government.

As of 31 December 2017 the average effective interest rates on amounts due to customers was 11.44% for amounts attracted in AMD (2016: 12.41%) and 6.59% for amounts attracted in USD, EUR and other freely convertible currencies (2016: 7.90%).

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

26 Subordinated debt

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Subordinate debt from other institutions	7,731,064	7,729,539
Total subordinated debt	7,731,064	7,729,539

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

The maturity for subordinate debt attracted from legal entities is set until 2026.

As of 31 December 2017 average weighted interest rate of subordinated debt was 13.56% (2016: 13.56%), for borrowings in US dollar was 7.81% (2016: 7.81%).

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

27 Other liabilities

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Accounts payables	195,196	69,499
Due to personnel	47,977	52,830
Total other financial liabilities	243,173	122,329
Tax payable, other than income tax	79,291	36,625
Grants related to assets	7,564	8,040
Other	9,653	21,996
Total other non-financial liabilities	96,508	66,661
Total other liabilities	339,681	188,990

Grants related to assets

In thousand Armenian drams	2017	2016
At 1 January	8,040	8,516
Recognition of income (note 9)	(476)	(476)
At 31 December	7,564	8,040

28 Equity

As of 31 December 2017 the Bank's registered and paid-in share capital was AMD 23,261,150 thousand (2016: AMD 23,261,150 thousand).

In accordance with the Bank's statues, the share capital consists of 465,223 shares, all of which have a par value of AMD 50,000 each.

In 2016 the Bank increased its share capital by AMD 12,200,000 thousand.

The respective shareholdings as of 31 December 2017 and 2016 may be specified as follows:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Armenia Business Fund	12,030,100	51.72	12,030,100	51.72
Artsakh Investment Fund	10,130,450	43.55	7,500,000	32.24
Nersisyan Kamo Sergey	354,750	1.53	354,750	1.53
Selefyan Arden	334,250	1.44	334,250	1.44
Gabrielyan Inna Valeri	328,100	1.41	328,100	1.41
Kaprielyan Hrach-Nerses	-	-	2,563,800	11.02
Other (4 shareholders in total)	83,500	0.35	150,150	0.65
	23,261,150	100	23,261,150	100

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

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

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 Bank’s statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank’s share capital reported in statutory books.

29 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Undrawn loan commitments	723,403	721,884
Guarantees	541,309	666,130
Total commitments and contingent liabilities	1,264,712	1,388,014

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

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for building and office area.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Not later than 1 year	48,442	52,091
Total operating lease commitments	48,442	52,091

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 20, 21.

Insurance

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

30 Transactions with related parties

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The ultimate controlling party of the Bank is Swiss businessman Vardan Sirmakes.

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

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Investments held-to-maturity				
At 1 January	9,590,261	-	-	-
Acquired during the year	4,243,726	-	9,590,261	-
Repayments during the year	-	-	-	-
At 31 December	13,833,987	-	9,590,261	-
Loans and advances to customers				
Loans outstanding at January 1	41,135,663	27,842	4,392,740	24,465
Loans balance of new related party	-	-	36,689,551	-
Loans issued during the year	76,040,353	23,056	10,612,712	57,384
Loan repayments during the year	(71,719,788)	(26,054)	(10,559,340)	(54,007)
Loans outstanding at 31 December, gross	45,456,228	24,844	41,135,663	27,842
Less allowance for impairment	(454,562)	(246)	(46,703)	(278)
Loans outstanding at 31 December	45,001,666	24,598	41,088,960	27,564
Amounts due from financial institutions				
At 1 January	5,218	-	383	-
Issued during the year	6,738,365	-	6,729,092	-
Repayments during the year	(6,731,083)	-	(6,724,257)	-
At 31 December	12,500	-	5,218	-
Other receivables	268,332	-	898,289	-
Amounts due to financial institttions				
At 1 January	165,000	-	1,667,739	-
Issued during the year	1,750,786	-	4,001,877	-
Repayments during the year	(1,915,786)	-	(5,504,616)	-
At 31 December	-	-	165,000	-
Amounts due to customers				
Deposits at January 1	3,878,589	80,385	3,633,275	665,161
Deposits received during the year	73,682,624	2,415,237	51,908,179	201,181
Deposits repaid during the year	(47,840,332)	(2,272,384)	(51,662,865)	(785,957)
Deposits at December 31	29,720,881	223,238	3,878,589	80,385

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Subordinated debt at 31 December	7,731,064	-	7,729,539	-
Guarantees issued	-	59,046	-	59,036
Sale of repossessed collateral	-	-	194,332	-
Statement of profit or loss and other comprehensive income				
Interest income	3,457,993	246	910,982	1,502
Interest expense	(1,781,330)	(4,433)	(1,224,362)	(7,702)
Impairment (charge)/reversal	(407,859)	32	(2,776)	(33)
Net income on sale of repossessed collateral	-	-	98	-
Other expenses(lease)	113,734	-	113,734	-

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 to 15 years (2016: from 1 to 18 years) and have interest rates of 11-18% (2016: 7.5-24%). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and other short-term payments	249,574	239,419
Total key management compensation	249,574	239,419

31 Fair value measurement

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

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Board.

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

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

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

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

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

31.1 Financial instruments that are not measured at fair value

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

In thousand Armenian dramsl	As of 31 December 2017				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and cash equivalents	-	19,493,573	-	19,493,573	19,493,573
Amounts due from financial institutions	-	16,077,157	-	16,077,157	16,077,157
Investments held-to-maturity	-	22,874,176	-	22,874,176	23,121,599
Loans and advances to customers	-	71,162,381	-	71,162,381	71,162,381
Other assets	-	351,699	-	351,699	351,699
Financial liabilities					
Amounts due to financial institutions	-	8,289,425	-	8,289,425	8,289,425
Amounts due to customers	-	90,413,523	-	90,413,523	90,413,523
Subordinated debt	-	7,731,064	-	7,731,064	7,731,064
Other liabilities	-	243,173	-	243,173	243,173

In thousand Armenian drams	As of 31 December 2016				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and cash equivalents	-	10,993,034	-	10,993,034	10,993,034
Amounts due from financial institutions	-	3,065,140	-	3,065,140	3,065,140
Investments held-to-maturity	-	14,226,353	-	14,226,353	14,789,086
Securities pledged under repurchase agreements	-	3,075,698	-	3,075,698	2,802,317
Loans and advances to customers	-	64,509,658	-	64,509,658	64,509,658
Other assets	-	936,843	-	936,843	936,843
Financial liabilities					
Amounts due to financial institutions	-	10,322,069	-	10,322,069	10,322,069
Amounts due to customers	-	59,138,224	-	59,138,224	59,138,224
Subordinated debt	-	7,729,539	-	7,729,539	7,729,539
Other liabilities	-	122,329	-	122,329	122,329

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 6% to 24% per annum (2016: 6% to 24% per annum).

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

Investment securities held-to-maturity

Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Amounts due to customers

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

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**As of 31 December 2017**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments available-for-sale (quoted)	27,501	-	-	27,501
Net fair value	27,501	-	-	27,501

In thousand Armenian drams				**As of 31 December 2016**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments available-for-sale (quoted)	24,625	-	-	24,625
Net fair value	24,625	-	-	24,625

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

Unlisted RA shares

The fair value of Bank’s investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 16 for further information about this equity investment.

31.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	As of 31 December 2017			
	Level 1	Level 2	Level 3	Total
Non financial assets				
Land and buildings	-	-	4,768,886	4,768,886
Total	-	-	4,768,886	4,768,886
Net fair value	-	-	4,768,886	4,768,886

In thousand Armenian drams	As of 31 December 2016			
	Level 1	Level 2	Level 3	Total
Non financial assets				
Land and buildings	-	-	4,830,799	4,830,799
Total	-	-	4,830,799	4,830,799
Net fair value	-	-	4,830,799	4,830,799

Fair value measurements in Level 3

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

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

In thousand Armenian drams	2017	
	Land and buildings	Total
Non financial assets		
Balance as of 1 January 2017	4,830,799	4,830,799
Reclassification	(61,913)	(61,913)
Balance as of 31 December, 2017	4,768,886	4,768,886
Net fair value	4,768,886	4,768,886

In thousand Armenian drams	2016	
	Land and buildings	Total
Non financial assets		
Balance as of 1 January 2016	4,667,326	4,667,326
Reclassification	163,473	163,473
Balance as of 31 December, 2016	4,830,799	4,830,799
Net fair value	4,830,799	4,830,799

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

The appraisal was carried out using a comparative and income methods that reflect observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The land and buildings were revalued on 31 December 2011.

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

32 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	As of 31 December 2017					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 15)	15,704,713	-	15,704,713	(15,704,713)	-	-

In thousand Armenian drams	As of 31 December 2016					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 15)	2,735,249	-	2,735,249	(2,735,249)	-	-
Financial liabilities						
Repurchase agreements (note 18)	2,802,317	-	2,802,317	2,992,276	-	(189,959)

33 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 34.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	2017							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets								
Cash and cash equivalents	19,493,573	-	-	19,493,573	-	-	-	19,493,573
Amounts due from financial institutions	16,077,157	-	-	16,077,157	-	-	-	16,077,157
Investments available-for-sale	58,958	-	-	58,958	-	-	-	58,958
Investments held-to-maturity	-	784,588	2,794,225	3,578,813	18,700,604	842,182	19,542,786	23,121,599
Loans and advances to customers	1,574,890	7,650,975	21,263,537	30,489,402	36,238,143	4,434,836	40,672,979	71,162,381
Other assets	140,267	98,808	33,547	272,622	79,077	-	79,077	351,699
	37,344,845	8,534,371	24,091,309	69,970,525	55,017,824	5,277,018	60,294,842	130,265,367
Liabilities								
Amounts due to financial institutions	2,065,230	1,106,776	2,255,960	5,427,966	980,868	1,880,591	2,861,459	8,289,425
Amounts due to customers	32,589,083	4,292,948	29,337,376	66,219,407	19,401,534	4,792,582	24,194,116	90,413,523
Subordinated debt	-	-	-	-	-	7,731,064	7,731,064	7,731,064
Other liabilities	243,173	-	-	243,173	-	-	-	243,173
	34,897,486	5,399,724	31,593,336	71,890,546	20,382,402	14,404,237	34,786,639	106,677,185
Net position	2,447,359	3,134,647	(7,502,027)	(1,920,021)	34,635,422	(9,127,219)	25,508,203	23,588,182
Accumulated gap	2,447,359	5,582,006	(1,920,021)		32,715,401	23,588,182		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2016
Assets								
Cash and cash equivalents	10,993,034	-	-	10,993,034	-	-	-	10,993,034
Amounts due from financial institutions	3,065,140	-	-	3,065,140	-	-	-	3,065,140
Investments available-for-sale	54,589	-	-	54,589	-	-	-	54,589
Investments held-to-maturity	156,683	752,357	1,218,810	2,127,850	12,072,154	589,082	12,661,236	14,789,086
Securities pledged under repurchase agreements	2,802,317	-	-	2,802,317	-	-	-	2,802,317
Loans and advances to customers	13,032,291	10,340,657	17,605,711	40,978,659	18,909,820	4,621,179	23,530,999	64,509,658
Other assets	259,327	96,788	435,546	791,661	145,182	-	145,182	936,843
	30,363,381	11,189,802	19,260,067	60,813,250	31,127,156	5,210,261	36,337,417	97,150,667
Liabilities								
Amounts due to financial institutions	6,885,017	478,396	177,782	7,541,195	873,305	1,907,569	2,780,874	10,322,069
Amounts due to customers	12,164,682	9,425,758	18,975,441	40,565,881	12,773,770	5,798,573	18,572,343	59,138,224
Subordinated debt	-	-	-	-	-	7,729,539	7,729,539	7,729,539
Other liabilities	122,329	-	-	122,329	-	-	-	122,329
	19,172,028	9,904,154	19,153,223	48,229,405	13,647,075	15,435,681	29,082,756	77,312,161
Net position	11,191,353	1,285,648	106,844	12,583,845	17,480,081	(10,225,420)	7,254,661	19,838,506
Accumulated gap	11,191,353	12,477,001	12,583,845		30,063,926	19,838,506		

34 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.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk management structure

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

Board of Directors

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

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 models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. 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. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. 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. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

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

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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.

As of 31 December 2017 the Bank had a concentration in loan portfolio and security investments represented by AMD 40,456,545 thousand and AMD 13,833,987 thousand (2016: AMD 36,689,551 thousand and AMD 9,590,261 thousand) respectively due from single third party entities and parties related with them (45% of Bank's assets). The Bank's management believes that these loans and bonds will be repaid according to the contractual terms and the concentrations will not cause a deterioration of the Bank's financial condition.

34.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities 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 is managed in accordance with the Bank's credit policy and the internal legal acts regulating the sphere.

The risk management division implements daily monitoring of the loan portfolio, calculation of dynamics based on the structured series and analysis of the quality of loan portfolio by products and branches, which is used for forecasting the qualitative indicators of the loan portfolio. The risk management division also conducts monitoring of different loan types in accordance with approved procedures, and monitors also other loans if it is necessary in case of worsening of the borrower's creditability. The loans issued by the Bank are also approved by the risk management division in accordance with the requirements of internal legal acts for reducing the credit risk. The credit risk management and control are centralised in Risk Management Division and reported to the Executive Board regularly.

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

34.1.1 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	19,493,573	-	-	19,493,573
Amounts due from financial institutions	15,058,801	748,663	269,693	16,077,157
Investments available-for-sale	58,958	-	-	58,958
Investments held-to-maturity	23,121,599	-	-	23,121,599
Loans and advances to customers	71,161,569	-	812	71,162,381
Other assets	206,469	1,452	143,778	351,699
As of 31 December 2017	129,100,969	750,115	414,283	130,265,367
As of 31 December 2016	95,604,444	282,803	1,263,420	97,150,667

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

Industry sectors

The Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December 2017 and 31 December 2016 is disclosed in the note 19.

34.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Credit Committee.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- charges over business assets such as premises, inventories and receivables.
- financial instruments, debt and equity shares.

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

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

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans collateralized by real estate	15,859,005	19,495,450
Loans collateralized by gold	2,327,576	2,270,895
Loans collateralized by vehicles	193,277	299,219
Loans collateralized by cash	4,579,661	4,164,238
Loans collateralized by inventories	600,509	440,407
Loans collateralized by equipment	45,555	60,067
Loans collateralized by cash or Armenian Government guarantees	45,138,264	37,073,389
Unsecured loans	1,092,358	1,077,881
Other collaterals	2,431,363	2,172,483
Total loans and advances to customers (gross)	72,267,568	67,054,029

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.

34.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**As of 31 December 2017**	**As of 31 December 2016**
Industry	6.3%	8.0%
Agriculture	-	1.8%
Construction	0.5%	-
Trading	2.5%	6.5%
Services	2.9%	3.9%
Consumer	0.2%	1.2%
Mortgage	2.4%	3.3%
Other	0.4%	1.4%

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

Past due but not impaired loans

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

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

In thousand Armenian drams	As of 31 December 2017		
	Less than 90 days	More than 91 days	Total
Loans and advances to customers			
Industry	7,884	-	7,884
Agriculture	2,222	12,314	14,536
Trading	12,706	4,701	17,407
Services	-	7,142	7,142
Consumer	64,419	39,396	103,815
Mortgage	115,727	86,385	202,112
Other	10,474	-	10,474
Total	213,432	149,938	363,370

In thousand Armenian drams	As of 31 December 2016		
	Less than 90 days	More than 91 days	Total
Loans and advances to customers			
Industry	1,436	12,396	13,832
Agriculture	34,039	-	34,039
Trading	130,994	17,092	148,086
Services	8,543	37,753	46,296
Consumer	176,653	170,410	347,063
Mortgage	187,121	195,713	382,834
Total	538,786	433,364	972,150

34.2 Market risk

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

34.2.2 Market risk – Non-trading

Interest rate risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VaR methodologies. The currency rates are monitored daily, based on which at the end of each month the currency rates are forecasted. The Board of Directors has set limits on positions by currency.

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

In thousand Armenian drams	As of 31 December 2017			As of 31 December 2016		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	5	(3,580)	(3,580)	5	10,474	10,474
USD	(5)	3,580	3,580	(5)	(10,474)	(10,474)
EUR	8	(317)	(317)	8	10,026	10,026
EUR	(8)	317	317	(8)	(10,026)	(10,026)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	15,397,721	3,945,340	150,512	19,493,573
Amounts due from financial institutions	15,976,590	99,163	1,404	16,077,157
Investments available-for-sale	58,958	-	-	58,958
Investments held-to-maturity	21,392,561	1,729,038	-	23,121,599
Loans and advances to customers	38,189,520	32,972,861	-	71,162,381
Other assets	216,946	134,753	-	351,699
	91,232,296	38,881,155	151,916	130,265,367
Liabilities				
Amounts due to financial institutions	8,288,125	1,300	-	8,289,425
Amounts due to customers	55,305,209	35,084,370	23,944	90,413,523
Subordinated debt	3,855,923	3,875,141	-	7,731,064
Other liabilities	242,968	193	12	243,173
	67,692,225	38,961,004	23,956	106,677,185
Net position as of 31 December 2017	23,540,071	(79,849)	127,960	23,588,182
Commitments and contingent liabilities as of 31 December 2017	1,201,832	62,880	-	1,264,712

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Total financial assets	56,581,366	40,471,875	97,426	97,150,667
Total financial liabilities	36,883,576	40,406,522	22,063	77,312,161
Net position as of 31 December 2016	19,697,790	65,353	75,363	19,838,506
Commitments and contingent liabilities As of 31 December 2016	1,321,663	66,351	-	1,388,014

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

34.3 Liquidity risk

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

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

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

	Not audited	
	As of 31 December 2017, %	As of 31 December 2016, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	37.00	22.21
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	156.32	141.06

Analysis of financial liabilities by remaining contractual maturities.

The table below summarizes the maturity profile of the Bank’s financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. Refer to note 33 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank beleives that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

In thousand Armenian drams						2017
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to financial institutions	2,075,093	1,124,168	2,358,784	1,228,205	2,959,942	9,746,192
Amounts due to customers	32,595,616	4,342,207	30,517,443	20,552,001	8,562,460	96,569,727
Subordinated debt	68,714	137,427	618,422	3,298,250	11,468,327	15,591,140
Other liabilities	243,173	-	-	-	-	243,173
Total undiscounted financial liabilities	34,982,596	5,603,802	33,494,649	25,078,456	22,990,729	122,150,232
Commitments and contingent liabilities	723,403	-	292,437	248,872	-	1,264,712
Total undiscounted financial liabilities as of 31 December 2016	19,262,091	10,137,498	20,955,796	19,726,656	25,868,888	95,950,929
Commitments and contingent liabilities as of 31 December 2016	1,121,884	6,990	200,104	59,036	-	1,388,014

The Bank has received significant funds from its shareholder and its related parties. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

34.4 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Bank. Operational risk is the risk of incompatibility of the Banks' operations and procedures to the legislation in force or their breach, the lack of information of the Bank's staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Bank. 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 operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

Legal risk: all the standard contract forms of the Bank are prepared by the Bank's Legal Department by cooperating with the Bank's appropriate departments and are approved by the Bank's Executive Board. In the Bank's day-to-day operations non-standard contracts between the Bank and third parties are allowed only in case of appropriate conclusion from the Banks Legal Department.

The IT risks are managed in accordance with internal legal acts.

The risk mitigation mechanisms for the process are:

- regulation of all business processes by internal legal acts,
- physical protection of the Bank's assets and critical documents (including loans contracts)
- establishing and maintaining limits,

- common preservation of property and records,
- implementation and archiving of data journals,
- implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Banks risks and supervises the Bank's activity and operational risks.

The Bank's correspondence with the standards is accompanied by the internal auditor's periodic observations. The results of those observations are discussed by the Bank's management's appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

35 Reconciliation of cash flows from financing activities

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

In thousand Armenian drams	As of 31 December 2017		
	Long-term liabilities	Subordinated debt	Total
As of 1 January 2017 (note 25, 26)	68,900	7,729,539	7,798,439
Cash-flows	126,337	-	126,337
Repayments	(62,126)	-	(62,126)
Proceeds	188,463	-	188,463
Non-cash	-	1,525	1,525
Foreign exchange gain/loss	-	(964)	(964)
Accrued interests	-	2,489	2,489
As of 31 December 2017	195,237	7,731,064	7,926,301

36 Capital adequacy

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

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and other reserves.

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

In thousand Armenian drams	Not audited As of 31 December 2017	As of 31 December 2016
Tier 1 capital	24,851,399	12,246,408
Tier 2 capital	9,259,644	5,617,829
Total regulatory capital	34,111,043	17,864,237
Risk-weighted assets	34,699,527	43,192,062
Capital adequacy ratio	98.30%	41.36%

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

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

The Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand as of 1 January 2017 and after that period.