Financial Statements
and Independent Auditor's Report

“Unibank” open joint stock company

31 December 2017

Contents

Grant Thornton

Independent auditor's report

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To the shareholders of "UNIBANK" OPEN JOINT STOCK COMPANY

Opinion

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

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

Basis for Opinion

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

Emphasis of matter

We draw your attention to the Note 39, which presents the political situation in Armenia and the uncertainties associated with it since 13 April 2018. According to the Bank's management assessments, these processes have no significant influence on the Bank's activity, and hence, there is no need to adjust the Bank's financial statements for the year ended 31 December 2017. Our opinion does not change with regard to this circumstance.

Key Audit Matters

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

- Loan impairment allowance

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

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

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

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

Other information

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Gagik Gyulbudaghyan
Managing Partner

Emil Vassilyan
Engagement Partner

27 April 2018

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	22,296,742	21,329,971
Interest and similar expense	6	(11,805,386)	(12,968,927)
Net interest income		10,491,356	8,361,044
Fee and commission income	7	897,588	1,036,568
Fee and commission expense	7	(298,538)	(289,585)
Net fee and commission income		599,050	746,983
Net trading income	8	631,274	270,717
Other income	9	1,732,594	1,452,759
Impairment charge	10	(5,974,493)	(4,436,968)
Staff costs	11	(3,480,771)	(3,128,249)
Depreciation of property and equipment	20	(511,350)	(450,013)
Amortization of intangible assets	21	(88,762)	(84,359)
Other expenses	12	(3,148,856)	(3,150,583)
Profit before income tax		250,042	(418,669)
Income tax expense	13	(182,440)	(24,549)
Profit/(loss) for the year		67,602	(443,218)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		255,764	1,096,106
Income tax relating to items not reclassified		(51,153)	(219,221)
Net gains from items that will not be reclassified subsequently to profit or loss		204,611	876,885
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain from changes in fair value from available-for-sale financial assets		507,685	664,809
Income tax relating to items that will be reclassified		(101,537)	(132,962)
Net gains from items that will be reclassified subsequently to profit or loss		406,148	531,847
Total other comprehensive income for the year, net of tax		610,759	1,408,732
Total comprehensive income for the year		678,361	965,514
Loss per share	14	(0.00045)	(0.00348)

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

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016
Assets			
Cash and cash equivalents	15	31,843,954	33,547,636
Amounts due from other financial institutions	16	995,550	3,268,547
Derivative financial assets	17	3,086	99,004
Loans and advances to customers	18	135,127,892	118,627,063
Investments available for sale	19	13,592,031	14,399,954
Securities pledged under repurchase agreements	28	7,877,164	-
Property, plant and equipment	20	8,193,410	7,651,713
Intangible assets	21	1,420,274	1,380,101
Prepaid income taxes		113,435	81,010
Other assets	22	3,554,675	6,341,061
Total assets		202,721,471	185,396,089
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	23	17,250,526	5,042,688
Amounts due to customers	24	128,427,923	128,012,569
Derivative financial liabilities	17	9,993	-
Borrowings	25	14,744,564	13,260,387
Debt securities issued	26	5,139,360	2,652,531
Deferred income tax liabilities	13	1,131,722	957,978
Other liabilities	27	656,030	626,893
Total liabilities		167,360,118	150,553,046
Equity			
Share capital	29	20,489,653	19,093,378
Share premium		9,605,638	7,790,481
Statutory general reserve		426,482	426,482
Other reserves		1,493,358	916,048
Retained earnings		3,346,222	6,616,654
Total equity		35,361,353	34,843,043
Total liabilities and equity		202,721,471	185,396,089

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

Hakobyan Mesrop
Chairman of the Executive Board

Gohar Grigoryan
Chief Accountant

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

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of 1 January 2016	14,167,947	1,387,422	421,851	(913,720)	421,036	7,224,556	22,709,092
Increase in share capital	4,925,431	6,403,059	-	-	-	-	11,328,490
Distribution to reserve	-	-	4,631	-	-	(4,631)	-
Dividends to shareholders	-	-	-	-	-	(160,053)	(160,053)
Transactions with owners	4,925,431	6,403,059	4,631	-	-	(164,684)	11,168,437
Loss for the year	-	-	-	-	-	(443,218)	(443,218)
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	1,096,106	-	1,096,106
Net unrealized gain from changes in fair value	-	-	-	664,809	-	-	664,809
Income tax relating to components of other comprehensive income	-	-	-	(132,962)	(219,221)	-	(352,183)
Total comprehensive income for the year	-	-	-	531,847	876,885	(443,218)	965,514
Balance as of 31 December 2016	19,093,378	7,790,481	426,482	(381,873)	1,297,921	6,616,654	34,843,043
Increase in share capital	1,396,275	1,815,157	-	-	-	(3,211,432)	-
Distribution to reserve	-		-	-	-	-	-
Dividends to shareholders	-	-	-	-	-	(160,051)	(160,051)
Transactions with owners	1,396,275	1,815,157	-	-	-	(3,371,483)	(160,051)

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Profit for the year	-	-	-	-	-	67,602	67,602
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	255,764	-	255,764
Adjustment to reserve from the sale of PPE	-	-	-	-	(33,449)	33,449	-
Net unrealized gains from changes in fair value	-	-	-	507,685	-	-	507,685
Income tax relating to components of other comprehensive income	-	-	-	(101,537)	(51,153)	-	(152,690)
Total comprehensive income for the year	-	-	-	406,148	171,162	101,051	678,361
Balance as of 31 December 2017	20,489,653	9,605,638	426,482	24,275	1,469,083	3,346,222	35,361,353

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

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit/(loss) before tax	250,042	(418,669)
Adjustments for		
Impairment charge	5,974,493	4,436,968
Gains from reversal of impairment and sale of repossessed	(58,295)	(44,451)
Impairment of PPE	7	89,434
Amortization and depreciation allowances	600,112	534,372
Loss from sale of PPE	2,938	16,731
Interest receivable	726,148	(1,034,266)
Interest payable	(369,819)	(303,381)
Revaluation of derivative financial instruments	(29,751)	256,470
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	428,837	(181,453)
Cash flows from operating activities before changes in operating assets and liabilities	7,524,712	3,351,755
(Increase)/decrease in operating assets		
Amounts due from financial institutions	2,294,537	(2,080,268)
Derivative financial instruments	112,087	(355,474)
Loans and advances to customers	(24,857,814)	(15,285,569)
Other assets	4,681,142	2,804,772
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	1,720,527	(756)
Amounts due to customers	(293,153)	24,521,896
Other liabilities	17,143	(54,014)
Net cash flow used in operating activities before income tax	(8,800,819)	12,902,342
Income tax	(32,425)	53,276
Net cash from/(used in) operating activities	(8,833,244)	12,955,618

Statement of cash flows (continued)

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from investing activities		
Purchase of investment securities	(6,752,977)	(5,125,305)
Purchase of property and equipment	(968,266)	(2,031,483)
Proceeds from sale of property and equipment	168,038	85,040
Purchase of intangible assets	(128,935)	(150,412)
Net cash used in investing activities	(7,682,140)	(7,222,160)
Cash flow from financing activities		
Proceeds from issue of share capital	-	11,328,490
Dividends paid	(160,051)	(246,850)
Loans received/(repaid) to financial institutions	10,432,480	(17,332,058)
Issue of bonds	2,465,424	2,637,137
Other long-term loans and advances received	1,366,159	5,543,439
Net cash from financing activities	14,104,012	1,930,158
Net increase/(decrease) in cash and cash equivalents	(2,411,372)	7,663,616
Cash and cash equivalents at the beginning of the year	33,547,636	26,012,823
Exchange differences on cash and cash equivalents	707,690	(128,803)
Cash and cash equivalents at the end of the year (Note 15)	31,843,954	33,547,636
Supplementary information:		
Interest received	23,022,890	20,305,950
Interest paid	(12,175,205)	(13,272,308)

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

Notes to the financial statements

1 Principal activities

“Unibank” CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the “CBA”).

On 23 June 2015 according to the Bank’s license registered under number 0373, “UNIBANK” CJSC was reorganized to “UNIBANK” OJSC issuing 14,500,000 shares.

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

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

Its main office is in Yerevan and it has 45 branches in Yerevan and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

On August 24, 2016 the international rating agency Moody's Investors Service approved the Bank’s deposit attraction B3/NP rating, caa1 base credit rating, B2(cr)/NP(cr) counterparty risk rating. Forecasts on all ratings changed to positive from stable.

On March 10, 2017, the international rating agency Moody's Investors Service has revised and raised the rating of "Unibank" by setting B2 for long-term deposits in AMD and foreign currency. Baseline credit assessment (BCA) / is defined b3, and long-term Counterparty Risk Assessment (CR Assessment/ B2(cr) level. Forecasting is stable.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at 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 Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group 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.

IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

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

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

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

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

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

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

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

Impairment – Financial assets, loan commitments and financial guarantee contracts

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

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

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

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

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

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
– incorporating forward-looking information into the measurement of ECLs;
– Definition of default.

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

– 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 income statement 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.

Dividend income

Revenue is recognized when the Bank’s right to receive the payment is established.

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 currencies

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own 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
AMD/1 RUB	8.40	7.88

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks.

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 fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Bank classified its financial assets into the following categories:

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

Assets available for sale represent debt and equity 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 identified in the financial statements on the basis of existing economic conditions. Bank is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

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

Available-for-sale financial assets

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

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

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

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

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

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

Operating - Bank as lessee

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

4.13 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. 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 historical cost. 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	60	1.67
Computers	5	20
Communication	5	20
Vehicles	7	14.3
ATM	10	10
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.

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.

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 statement of financial position, 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.

4.14 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. The estimated useful life of computer software and licences is 10 years. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Computer software development costs are recognised as an expense as incurred.

4.15 Repossessed assets

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

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued 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 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.

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed 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 reserve

The property revaluation reserve 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 securities

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

4.19 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements sheet 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.

4.20 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components**.** In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

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 32).

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 available-for-sale financials assets recognition of changes in fair value through equity.

Useful life of PPE

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

Derivatives

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

Related party transactions

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

Impairment of loans and receivables

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 30.

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 and advances to customers	19,787,690	19,596,435
Debt investment securities available-for-sale	2,067,391	1,331,614
Amounts due to financial institutions	33,641	91,578
Reverse repurchase transactions	125,646	86,416
Interest accrued on individually impaired financial assets	266,106	187,066
Derivative financial instruments	16,268	36,862
Total interest and similar income	22,296,742	21,329,971
Amounts due to customers	9,553,380	10,268,285
Amounts due to financial institutions	431,511	927,321
Government loans	325,569	175,932
Repurchase transactions	37,482	207,360
Borrowings	1,206,733	1,255,391
Bonds issued	250,711	134,638
Total interest and similar expense	11,805,386	12,968,927

7 Fee and commission income and expense

In thousand Armenian drams	2017	2016
Cash collection	433,879	520,944
Plastic cards operations	200,476	170,710
Guarantees and letters of credit	16,522	41,689
Foreign currency translation operations	99,975	80,832
Other fees and commissions	146,736	222,393
Total fee and commission income	897,588	1,036,568
Wire transfer fees	70,300	95,529
Plastic cards operations	181,735	142,538
Foreign currency translation operations	6,447	3,410
Stock exchange services	13,638	18,420
Other expenses	26,418	29,688
Total fee and commission expense	298,538	289,585

8 Net trading income

In thousand Armenian drams	2017	2016
Gains less losses from transactions in foreign currencies	601,523	594,467
Gains less losses from derivatives	29,751	(256,470)
Loss from security operations	-	(67,280)
Total net trading income	631,274	270,717

9 Other income

In thousand Armenian drams	2017	2016
Fines and penalties received	1,273,075	1,105,394
Foreign currency translation net gains of non-trading assets and liabilities	-	181,453
Reversal of impairment of repossessed assets	93,148	126,836
Gains from operations of precious metals	7,121	3,730
Income from leased assets	341,248	-
Other income	18,002	35,346
Total other income	1,732,594	1,452,759

10 Impairment charge

In thousand Armenian drams	2017	2016
Loans and advances to customers (Note 18)	5,940,569	4,429,112
Other assets (Note 22)	33,924	7,856
Total impairment charge	5,974,493	4,436,968

11 Staff costs

In thousand Armenian drams	2017	2016
Compensations of employees, related taxes included	3,477,720	3,125,380
Staff training and other costs	3,051	2,869
Total staff costs	3,480,771	3,128,249

12 Other expenses

In thousand Armenian drams	2017	2016
Fixed assets maintenance	594,812	549,324
Advertising costs	242,762	334,651
Business trip expenses	12,453	19,620
Communications	150,716	129,651
Operating lease	462,856	669,671
Taxes, other than income tax, duties	389,813	412,076
Foreign currency translation net losses of non-trading assets	428,837	-
Consulting and other services	31,813	88,094
Security	53,869	58,697
Representative expenses	50,892	113,470
Office supplies	87,439	63,922
Penalties paid	2,118	1,878
Deposit insurance	333,306	260,989
Computer software maintenance	44,640	41,001
Cash collection services	67,948	69,336
Loss on impairment of PPE	7	89,434
Loss on disposal of PPE	2,938	16,731
Loss on disposal of repossessed assets	34,853	82,385
Other expenses	156,784	149,653
Total other expense	3,148,856	3,150,583

13 Income tax expense

In thousand Armenian drams	2017	2016
Current tax expense	161,386	149,795
Deferred tax	21,054	(125,246)
Total income tax expense	182,440	24,549

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

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

In thousand Armenian drams	2017	Effective rate (%)	2016	Effective rate (%)
Profit/(loss) before tax	250,042		(418,669)	
Income tax at the rate of 20%	50,008	20	(83,734)	(20)
Non-taxable income	(26,991)	(10)	(7,480)	(2)
Other taxable income	2,186	1	4,687	1
Non-deductible expenses	65,520	26	96,073	23
Gains less losses from derivatives	5,950	2	51,294	12
Foreign exchange difference	85,767	34	(36,291)	(9)
Income tax expense	182,440	73	24,549	5

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2017
Other liabilities	62,846	10,374	-	73,220
Securities available for sale	96,603	-	(101,537)	(4,934)
Total deferred tax assets	159,449	10,374	(101,537)	68,286
Contingent liabilities	(22,516)	2,555	-	(19,961)
Amounts due from other financial institutions	(9,963)	(11,411)	-	(21,374)
Loans and advances to customers	(770,137)	(35,345)	-	(805,482)
PPE	(314,811)	12,773	(51,153)	(353,191)
Total deferred tax liability	(1,117,427)	(31,428)	(51,153)	(1,200,008)
Net deferred tax liability	(957,978)	(21,054)	(152,690)	(1,131,722)

In thousand Armenian drams	As of 31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2016
Other liabilities	52,083	10,763	-	62,846
Securities available for sale	229,565	-	(132,962)	96,603
Other assets	36,613	(36,613)	-	-
Total deferred tax assets	318,261	(25,850)	(132,962)	159,449
Contingent liabilities	(22,642)	126	-	(22,516)
Amounts due from other financial institutions	(7,030)	(2,933)	-	(9,963)
Loans and advances to customers	(922,286)	152,149	-	(770,137)
PPE	(97,344)	1,754	(219,221)	(314,811)
Total deferred tax liability	(1,049,302)	151,096	(219,221)	(1,117,427)
Net deferred tax liability	(731,041)	125,246	(352,183)	(957,978)

14 Earnings per share

In thousand Armenian drams	2017	2016
Profit/(loss) for the year	67,602	(443,218)
Dividends on preferred shares	(160,051)	(160,053)
Loss less dividends on preferred shares	(92,449)	(603,271)
Weighted average number of ordinary shares (per share)	203,366,365	173,320,463
Loss per share – basic	(0.0004546)	(0.00348)

15 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Cash on hand	7,690,879	7,186,662
Correspondent accounts with CBA	20,879,961	23,274,349
Nostro accounts with other banks	3,273,114	3,086,625
Total cash and cash equivalents	31,843,954	33,547,636

As of 31 December 2017 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 14,638,272 thousand (2016: AMD 15,656,074 thousand, 2% and 18% respectively). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. The mandatory reserve deposits of the Bank are non-interest bearing.

As at 31 December 2017 the accounts in amount of AMD 3,202,814 thousand (98%) (2016: AMD 2,439,644 thousand (79%)) were due from two commercial banks.

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

- repayment of AMD 1,892,940 thousand loan by transfer of property rights on pledge (2016: AMD 3,595,345 thousand).

16 Amounts due from financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Deposited funds with the CBA	210,000	510,000
Reverse repurchased agreements	-	2,002,157
Deposits in financial institutions	736,930	736,357
Loans to financial institutions	48,620	20,033
Total amounts due from financial institutions	995,550	3,268,547

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

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2016 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	-	-	2,123,227	2,002,157
Total assets pledged and loans under reverse repurchase agreements	-	-	2,123,227	2,002,157

17 Derivative financial instruments

In thousand Armenian drams	As of 31 December 2017			As of 31 December 2016		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – foreign currency	2,770,514	3,086	9,993	1,693,790	99,004	-
Total derivative financial instruments	2,770,514	3,086	9,993	1,693,790	99,004	-

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

18 Loans to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans	118,352,092	104,462,281
Overdrafts	22,532,684	20,108,572
	140,884,776	124,570,853
Less allowances for impairment of loans and advances	(5,756,884)	(5,943,790)
Total loans and advances to customers	135,127,892	118,627,063

As of 31 December 2017 the average effective interest rates on loans and advances to corporate customers were 13.49% for loans in AMD, 12.32% for loans in USD, 12.64% for loans in EUR, 12.30% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 17.82% for loans in AMD, 13.25% for loans in USD, 11.14% for loans in EUR, there are no loans in RUB (2016: on loans and advances to corporate customers were 13.65% for loans in AMD, 13.28% for loans in USD, 15.41% for loans in RUB, 12.79% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 21.66% for loans in AMD, 14.39% for loans in USD, 12.19% for loans in EUR, 19.49% for loans in RUB).

As of 31 December 2017, the Bank had a concentration of loans represented by AMD 34,868,710 thousand due from the 13 largest third party entities and parties related with them (25% of gross loan portfolio) (2016: AMD 27,772,226 thousand due from the 15 largest third party entities and parties related with them (22% of gross loan portfolio). An allowance of AMD 560,441 thousand (2016: AMD 1,308,341 thousand) was made against these loans.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Industry	8,591,135	9,859,654
Agriculture	547,754	702,761
Construction	9,426,511	5,487,155
Transportation	5,851,808	3,916,190
Trade	24,403,124	24,952,250
Services	8,073,613	8,879,170
Consumer	55,631,593	47,898,778
Mortgage	11,871,486	12,600,173
Other	16,487,752	10,274,722
	140,884,776	124,570,853
Less allowances for impairment of loans and advances	(5,756,884)	(5,943,790)
Total loans and advances	135,127,892	118,627,063

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

In thousand Armenian drams	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2017
At 1 January 2017	466,732	24,377	324,341	504,759	1,726,813	549,480	1,227,389	531,033	588,866	5,943,790
Charge/(reversal) for the year	(254,322)	(25,845)	156,575	(157,259)	1,180,917	68,234	5,486,389	(355,085)	(159,035)	5,940,569
Amounts written off	(971,931)	-	(233,847)	(141,650)	(1,633,458)	(124,905)	(5,332,228)	(314,234)	(17,160)	(8,769,413)
Recoveries	1,077,422	6,946	34,674	21,296	151,971	204,742	738,650	257,001	149,236	2,641,938
At 31 December 2017	317,901	5,478	281,743	227,146	1,426,243	697,551	2,120,200	118,715	561,907	5,756,884
Individual impairment	239,313	-	195,926	119,786	1,110,306	651,500	185,451	-	406,382	2,908,664
Collective impairment	78,588	5,478	85,817	107,360	315,937	46,051	1,934,749	118,715	155,525	2,848,220
	317,901	5,478	281,743	227,146	1,426,243	697,551	2,120,200	118,715	561,907	5,756,884
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	732,359	-	844,776	201,264	3,340,650	3,468,515	1,888,572	-	935,271	11,411,407

In thousand Armenian drams	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2016
At 1 January 2016	266,353	21,000	85,468	504,175	1,248,540	1,068,221	946,317	352,011	81,110	4,573,195
Charge/(reversal) for the year	286,698	15,763	213,934	207,889	564,577	(292,011)	2,657,130	320,845	454,287	4,429,112
Amounts written off	(376,348)	(17,791)	(4,609)	(244,320)	(671,174)	(248,097)	(3,097,785)	(454,972)	(893)	(5,115,989)
Recoveries	290,029	5,405	29,548	37,015	584,870	21,367	721,727	313,149	54,362	2,057,472
At 31 December 2016	466,732	24,377	324,341	504,759	1,726,813	549,480	1,227,389	531,033	588,866	5,943,790

In thousand Armenian drams										As of 31 December 2016
	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
Individual impairment	377,928	17,643	275,797	496,938	1,529,388	502,611	215,537	301,106	502,630	4,219,578
Collective impairment	88,804	6,734	48,544	7,821	197,425	46,869	1,011,852	229,927	86,236	1,724,21
	466,732	24,377	324,341	504,759	1,726,813	549,480	1,227,389	531,033	588,866	5,943,790
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	979,218	29,404	632,716	3,134,141	5,217,432	4,192,285	408,659	921,433	1,009,624	16,524,912

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
State owned enterprises	824,858	323,214
Privately held companies	56,711,773	51,531,905
Individuals	71,422,427	61,433,218
Sole proprietors	11,925,718	11,282,516
	140,884,776	124,570,853
Less allowance for loans and advances impairment	(5,756,884)	(5,943,790)
Total loans and advances to customers	135,127,892	118,627,063

Loans to individuals are presented below:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Mortgage loans	11,871,486	12,600,173
Consumer	55,289,992	47,350,203
Car loans	340,104	537,475
Other	3,920,845	945,367
Total loans and advances to individuals (gross)	71,422,427	61,433,218

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

Other analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

Maturity analysis of loans and advances to customers are disclosed in Note 34.

19 Available-for-sale investments

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Unquoted investments		
Shares of Armenian companies	21,460	12,690
RA state bonds	12,168,958	13,902,603
Corporate bonds	1,401,613	484,661
Total available-for-sale investments	13,592,031	14,399,954

All debt securities have fixed coupons.

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

Available for sale debt securities by efficient 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	5.72-14.94%	2018-2028	5.72-14.94%	2018-2028

Available-for-sale debt securities at fair value of AMD 7,877,164 thousand were pledged to third parties in sale and repurchase agreements for periods not exceeding 2 months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

All unquoted available-for-sale shares are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
Cost						
At 1 January 2016	3,366,354	405,062	1,055,870	179,527	2,531,869	7,538,682
Additions	1,150,991	36,811	133,312	2,526	707,843	2,031,483
Disposals	(94,314)	-	(30,759)	-	(30,092)	(155,165)
Revaluation	1,006,672	-	-	-	-	1,006,672
Depreciation adjustment as a result of revaluation	(120,938)	-	-	-	-	(120,938)
Reclassification	299,994	(299,994)	-	-	-	-
At 31 December 2016	5,608,759	141,879	1,158,423	182,053	3,209,620	10,300,734

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
Additions	97,905	106,637	93,584	66,716	603,424	968,266
Disposals	(70,002)	(1,276)	(43,381)	(63,268)	(135,700)	(313,627)
Revaluation	255,757	-	-	-	-	255,757
Depreciation adjustment as a result of revaluation combination	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	5,821,754	247,240	1,208,626	185,501	3,677,344	11,140,465
Accumulated depreciation						
At 1 January 2016	9,549	92,319	696,205	80,743	1,494,524	2,373,340
Charge for the year	68,867	6,222	129,216	26,060	219,648	450,013
Disposals	(1,813)	-	(30,236)	-	(21,345)	(53,394)
Depreciation adjustment as a result of revaluation combination	(120,938)	-	-	-	-	(120,938)
Reclassification	56,177	(56,177)	-	-	-	-
At 31 December 2016	11,842	42,364	795,185	106,803	1,692,827	2,649,021
Charge for the year	68,382	4,320	155,794	13,119	269,735	511,350
Disposals	(334)	(1,275)	(42,341)	(52,450)	(46,251)	(142,651)
Depreciation adjustment as a result of revaluation combination	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	9,225	45,409	908,638	67,472	1,916,311	2,947,055
Carrying amount						
At 31 December 2016	5,596,917	99,515	363,238	75,250	1,516,793	7,651,713
At 31 December 2017	5,812,529	201,831	299,988	118,029	1,761,033	8,193,410

Revaluation of assets

The land and buildings owned by the Bank were evaluated by an independent appraiser in December 2017 using the comparative sales methods resulting in a net decrease in amount of AMD 255,757 thousand (2016: AMD 1,006,672 thousand). Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 5,555,765 thousand as at 31 December 2017 (2016: AMD 4,512,820 thousand).

Fully depreciated items

As at 31 December 2017 fixed assets included fully depreciated and amortized assets in cost of AMD 1,819,313 thousand (2016: AMD 1,203,695 thousand).

Fixed assets in the phase of installation

As at 31 December 2017 fixed assets included assets in the phase of installation amounting AMD 1,035,877 thousand, containing buildings in amount of AMD 50,600 thousand (2016: AMD 737,736 thousand, containing buildings in amount of AMD 18,200 thousand)

Restrictions on title of fixed assets

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

Contractual commitments

As at 31 December 2017, the Bank had no contractual commitment in respect of investments in fixed assets (2016: nil).

21 Intangible 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	Licenses	Acquired software licenses	Other	Total
Cost				
At 1 January 2016	930,838	667,307	100,433	1,698,578
Additions	6,104	143,720	588	150,412
Disposals	-	(115)	-	(115)
At 31 December 2016	936,942	810,912	101,021	1,848,875
Additions	7,825	121,110	-	128,935
At 31 December 2017	944,767	932,022	101,021	1,977,810
Accumulated depreciation				
At 1 January 2016	171,596	153,462	59,472	384,530
Amortisation charge	56,491	25,470	2,398	84,359
Disposals	-	(115)	-	(115)
At 31 December 2016	228,087	178,817	61,870	468,774
Amortisation charge	55,702	30,663	2,397	88,762
At 31 December 2017	283,789	209,480	64,267	557,536
Carrying amount				
At 31 December 2016	708,855	632,095	39,151	1,380,101
At 31 December 2017	660,978	722,542	36,754	1,420,274

Contractual commitments

As at 31 December 2017, the Bank did not have contractual commitments in respect of investments in intangible assets.

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

As at 31 December 2017, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 489,449 thousand (2016: AMD 534,750 thousand).

22 Other assets

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Prepayments and other debtors	629,014	488,267
Accounts receivable	208,658	153,094
Other assets	638,733	564,424
	1,476,405	1,205,785
Less allowance for impairment	(12,707)	(10,522)
	1,463,698	1,195,263
Repossessed assets	1,876,321	4,993,452
Other prepaid taxes	3,399	-
Materials	148,063	96,273
Precious metals	63,194	56,073
Total other assets	3,554,675	6,341,061

Repossessed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

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

In thousand Armenian drams	Total
At 1 January 2016	16,081
Charge for the year	7,856
Reversal	(13,415)
At 31 December 2016	10,522
Charge for the year	33,924
Reversal	(31,739)
At 31 December 2017	12,707

23 Amounts due to financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Correspondent accounts of other banks	1,751,864	4,217
Current accounts of other financial institutions	93,025	84,011
Loans from financial institutions	6,606,372	4,006,148
Loans under repurchase agreements	7,773,155	-
Deposits from financial institutions	1,026,110	948,312
Total amounts due to financial institutions	17,250,526	5,042,688

As of 31 December 2017 the average effective interest rates on amounts due to financial institutions was 8.00% for borrowings in AMD (2016: 8.98%) and 3.22% for borrowings in USD (2016: 6.2%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

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

24 Amounts due to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Corporate customers		
Current/Settlement accounts	7,011,387	6,338,541
Time deposits	18,171,418	21,520,427
	25,182,805	27,858,968
Retail customers		
Current/Demand accounts	10,943,532	6,870,910
Time deposits	92,301,586	93,282,691
	103,245,118	100,153,601
Total amounts due to customers	128,427,923	128,012,569

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2017 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 13,978,166 thousand (2016: AMD 15,228,974 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2017 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 23,009,790 thousand (2016: AMD 28,217,786 thousand) or 18% of total retail and corporate customer accounts (2016: 22%).

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

As of 31 December 2017 the average effective interest rates on amounts due to corporate customers were 13.81% for liabilities in AMD, 5.61% for liabilities in USD, 1.65% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 9.55% for liabilities in AMD, 4.65% for liabilities in USD, 3.45% for liabilities in EUR, 7.8% for liabilities in RUB (2016: for corporate customers 13.2% for liabilities in AMD, 5.93% for liabilities in USD, 3.73% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 13.27% for liabilities in AMD, 6.24% for liabilities in USD, 6.6% for liabilities in EUR).

25 Borrowings

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Subordinated debt provided by non-financial organizations	3,389,708	7,714,584
Loans from RA Government	5,199,665	3,125,813
Other borrowing	6,155,191	2,419,990
Total subordinated debt	14,744,564	13,260,387

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of “Rural Areas Development Programme” and “Economy stabilization lending programme”. Loans carry fixed interest rates.

The Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 31).

As of 31 December 2017 the average effective interest rate on amounts due to Government of the RA was 6.19% for loans in AMD, 4.06% for loans in USD (2016: the average effective interest rate was 7.39% for loans in AMD, 4.06% for loans in USD).

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

As of 31 December 2017 average weighted interest rate of borrowings was 11.59% (2016: 12.87%).

26 Debt securities issued

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Bonds issued	5,139,360	2,652,531
Total debt securities issued	5,139,360	2,652,531

During 2016 the Bank has issued 18,482 nominal coupon bonds with nominal value of AMD 10,000, 13.5% of interest rate and maturing up to 2018.

During 2016 the Bank has issued 50,000 nominal coupon bonds with nominal value of USD 100, 8% of interest rate and maturing up to 2018.

During 2017 the Bank has issued 25,000 nominal coupon bonds with nominal value of AMD 10,000, 13.5% of interest rate and maturing up to 2020.

During 2017 the Bank has issued 50,000 nominal coupon bonds with nominal value of USD 100, 8% of interest rate and maturing up to 2020.

The bonds of the Bank are listed at “NASDAQ OMX Armenia” stock exchange.

During the year the Bank has not repurchased any issued bond.

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

27 Other liabilities

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Accounts payables	115,730	155,691
Due to personnel	284,645	214,485
Total other financial liabilities	400,375	370,176
Tax payable, other than income tax	204,659	197,717
Revenues of future periods	50,996	59,000
Total other non-financial liabilities	255,655	256,717
Total other liabilities	656,030	626,893

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	As of 31 December 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
Available for sale securities (Note 19, 23)	7,877,164	-	7,773,155	-
				-
	7,877,164	-	7,773,155	-

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.

29 Equity

As at 31 December 2017 the Bank's registered and paid-in share capital was AMD 20,489,653 thousand. In accordance with the Bank's statute, the share capital consists of 172,886,525 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

The respective shareholdings as at 31 December 2017 and 2016 may be specified as follow:

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
Uniholding GG Ltd	17,981,523	88	-	-
Sfikaro Investments Ltd	1,350,900	6	1,231,903	6
Arolova Enterprises Ltd	776,701	4	708,284	4
Ripatonso Holdings Ltd	-	-	16,805,935	88
Other	380,529	2	347,256	2
	20,489,653	100	19,093,378	100

As at 31 December 2017 the Bank did not possess any of its own shares.

In 2017 the Bank increased its share capital by AMD 3,211,432 thousand, from which the share premium was AMD 1,815,157 thousand (2016: AMD 11,328,490 thousand, from which the share premium was AMD 6,403,059 thousand). The share capital of the Bank was contributed through dividends declared and they are entitled to dividends and any capital distribution in Armenian Drams.

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 holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2017 the dividends for preference shareholders recognized in the financial statements amounted to AMD 160,051 thousand (2016: AMD 160,053 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. 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 book.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Management 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	7,307,417	3,808,689
Guarantees	482,605	2,184,384
Total commitments and contingent liabilities	7,790,022	5,993,073

Operating lease commitments – Bank as a lessee

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

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Not later than 1 year	459,302	331,816
Later than 1 year and not later than 5 years	806,463	625,668
Later than 5 years	47,065	46,719
Total operating lease commitments	1,312,830	1,004,203

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

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

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partially coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

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 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				
Loans and advances to customers				
Loans outstanding at January 1, gross	3,650,987	197,982	239,451	208,518
Loans issued during the year	26,891	279,456	3,551,055	148,155
Loan repayments during the year	(222,985)	(95,154)	(139,519)	(158,691)
Loans outstanding at 31 December gross	3,454,893	382,284	3,650,987	197,982
Less: allowance for loan impairment	(34,549)	(3,823)	(36,510)	(1,980)
Loans outstanding at December 31	3,420,344	378,461	3,614,477	196,002

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Amounts due from other financial institutions				
At January 1	356,283	-	566,731	-
Increase	43,901,871	-	53,838,524	-
Decrease	(43,980,977)	-	(54,048,972)	-
At December 31	277,177	-	356,283	-
Amounts due to financial institutions				
At January 1	440,151	-	874,173	-
Increase	17,108,731	-	6,670,222	-
Decrease	(15,672,594)	-	(7,104,244)	-
At December 31	1,876,288	-	440,151	-
Amounts due to customers				
At January 1	449,792	241,194	671,531	192,156
Deposits received during the year	7,762,798	925,196	35,735,685	1,609,908
Deposits repaid during the year	(7,975,848)	(1,026,744)	(35,957,424)	(1,560,870)
At December 31	236,742	139,616	449,792	241,194
Borrowings				
At January 1	10,134,574	-	7,511,491	-
Received during the year	31,577,312	-	43,330,941	-
Repaid during the year	(32,166,987)	-	(40,707,858)	-
Borrowings at December 31	9,544,899	-	10,134,574	-
Debt securities issued	-	56,642	-	-
Statement of profit or loss and other comprehensive income				
Interest and similar income	392,646	37,482	210,410	24,052
Interest and similar expenses	(1,229,827)	(10,004)	(1,273,155)	(50,748)
Charge/(reversal) of credit losses	(1,961)	1,843	34,115	(105)
Operating lease expenses	-	-	(307,473)	-
Insurance payments	(33,639)	-	(35,121)	-

The loans issued to parties related with the Bank are repayable in 1-20 years and have interest rate 8%-23%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and bonuses	750,989	590,026
Total key management compensation	750,989	590,026

32 Fair value measurement

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	31,843,954	-	31,843,954	31,843,954
Amounts due from financial institutions	-	995,550	-	995,550	995,550
Loans and advances to customers	-	135,127,892	-	135,127,892	135,127,892
Financial liabilities					
Amounts due to financial institutions	-	17,250,526	-	17,250,526	17,250,526
Amounts due to customers	-	128,427,923	-	128,427,923	128,427,923
Borrowings	-	14,744,564	-	14,744,564	14,744,564
Issued debt securities	-	5,183,230	-	5,183,230	5,139,360
Other financial liabilities	-	400,375	-	400,375	400,375

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	-	33,547,636	-	33,547,636	33,547,636
Amounts due from financial institutions	-	3,268,547	-	3,268,547	3,268,547
Loans and advances to customers	-	118,627,063	-	118,627,063	118,627,063
Financial liabilities					
Amounts due to financial institutions	-	5,042,688	-	5,042,688	5,042,688
Amounts due to customers	-	128,012,569	-	128,012,569	128,012,569
Borrowings	-	13,260,387	-	13,260,387	13,260,387
Issued debt securities	-	2,695,156	-	2,695,156	2,652,531
Other financial liabilities	-	370,176	-	370,176	370,176

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5% to 24% per annum (2016: 9% 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.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

The estimated fair value of the issued debt securities is determined based on the estimated future cash flows discounted at the relevant interest rates at the end of the year, which mainly coincides with the current interest rates.

32.2 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				
Derivative financial assets	-	3,086	-	3,086
Investments available-for-sale	-	13,570,571	-	13,570,571
Securities pledged under repurchase agreements	-	7,877,164	-	7,877,164
Total	-	21,450,821	-	21,450,821
Financial liabilities				
Derivative financial liabilities	-	9,993	-	9,993
Total	-	9,993	-	9,993
Net fair value	-	21,440,828	-	21,440,828

In thousand Armenian drams	As of 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investments available-for-sale	-	14,387,264	-	14,387,264
Derivative financial assets	-	99,004	-	99,004
Total	-	14,486,268	-	14,486,268

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

Unlisted equity investments.
The fair value of Bank's investments in unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to Note 19 for further information about this equity investment.

32.3 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				
Property plant and equipment				
Land and buildings	-	-	5,821,754	5,821,754
Total non-financial assets	-	-	5,821,754	5,821,754
NET FAIR VALUE	-	-	5,821,754	5,821,754

In thousand Armenian drams				As of 31 December 2016
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	5,608,759	5,608,759
Total non-financial assets	-	-	5,608,759	5,608,759
NET FAIR VALUE	-	-	5,608,759	5,608,759

Fair value measurements in Level 3

The Bank's financial assets were classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams		2017
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2017	5,608,759	5,608,759
Net loss from impairment recognized in comprehensive income	(7)	(7)
Depreciation adjustment as a result of revaluation of PPE	(70,665)	(70,665)
Gain recognised in other comprehensive income	255,764	255,764
Additions	97,905	97,905
Disposal	(70,002)	(70,002)
Balance as at 31 December, 2017	5,821,754	5,821,754
NET FAIR VALUE	5,821,754	5,821,754

In thousand Armenian drams		2016
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2016	3,366,354	3,366,354
Net loss from impairment recognized in comprehensive income	(89,434)	(89,434)
Depreciation adjustment as a result of revaluation of PPE	(120,938)	(120,938)
Gains recognised in other comprehensive income	1,096,106	1,096,106
Additions	1,450,985	1,450,985
Disposal	(94,314)	(94,314)
Balance as at 31 December, 2016	5,608,759	5,608,759
NET FAIR VALUE	5,608,759	5,608,759

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

The appraisal was carried out using a comparative approach that reflects 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.

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams				As at 31 December 2017		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial liabilities						
Loans under repurchase agreements (Note 23)	(7,773,155)	-	(7,773,155)	7,877,164	-	104,009

In thousand Armenian drams				As at 31 December 2016		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial assets in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (Note 16)	2,002,157	-	2,002,157	2,002,157	-	-

34 Maturity analysis of assets and liabilities

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

In thousand Armenian drams	As at 31 December 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	31,843,954	-	-	31,843,954	-	-	-	31,843,954
Amounts due from financial institutions	995,550	-	-	995,550	-	-	-	995,550
Derivative financial assets	3,086	-	-	3,086	-	-	-	3,086
Loans and advances to customers	22,535,590	16,833,869	30,615,659	69,985,118	39,824,897	25,317,877	65,142,774	135,127,892
Available for sale investments	21,460	-	372,867	394,327	4,878,803	8,318,901	13,197,704	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164	-	-	-	7,877,164
	63,276,804	16,833,869	30,988,526	111,099,199	44,703,700	33,636,778	78,340,478	189,439,677
Liabilities								
Amounts due financial institutions	13,840,218	380,951	1,532,215	15,753,384	40,182	1,456,960	1,497,142	17,250,526
Amounts due customers	32,976,417	28,351,422	58,307,935	119,635,774	7,721,832	1,070,317	8,792,149	128,427,923
Derivative financial liabilities	9,993	-	-	9,993	-	-	-	9,993
Borrowings	10,082	1,233	6,155,191	6,166,506	77,505	8,500,553	8,578,058	14,744,564
Debt securities issued	-	-	2,643,711	2,643,711	2,495,649	-	2,495,649	5,139,360
Other liabilities	400,375	-	-	400,375	-	-	-	400,375
	47,237,085	28,733,606	68,639,052	144,609,743	10,335,168	11,027,830	21,362,998	165,972,741
Net position	16,039,719	(11,899,737)	(37,650,526)	(33,510,544)	34,368,532	22,608,948	56,977,480	23,466,936
Accumulated gap	16,039,719	4,139,982	(33,510,544)		857,988	23,466,936		

In thousand Armenian drams	As at 31 December 2016							
	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	33,547,636	-	-	33,547,636	-	-	-	33,547,636
Amounts due from financial institutions	1,145,320	40,950	-	1,186,270	1,032,067	1,050,210	2,082,277	3,268,547
Derivative financial assets	99,004	-	-	99,004	-	-	-	99,004
Loans and advances to customers	18,813,969	17,949,658	27,732,206	64,495,833	45,502,662	8,628,568	54,131,230	118,627,063
Available for sale investments	3,213	363,099	1,367	367,679	10,060,199	3,972,076	14,032,275	14,399,954
	53,609,142	18,353,707	27,733,573	99,696,422	56,594,928	13,650,854	70,245,782	169,942,204
Liabilities								
Amounts due financial institutions	193,962	979,024	1,252,654	2,425,640	1,491,262	1,125,786	2,617,048	5,042,688
Amounts due customers	13,244,946	49,962,689	56,480,483	119,688,118	3,833,132	4,491,319	8,324,451	128,012,569
Borrowings	256,949	-	10,145,994	10,402,943	2,857,444	-	2,857,444	13,260,387
Debt securities issued	-	8,820	-	8,820	2,643,711	-	2,643,711	2,652,531
Other liabilities	305,665	64,511	-	370,176	-	-	-	370,176
	14,001,522	51,015,044	67,879,131	132,895,697	10,825,549	5,617,105	16,442,654	149,338,351
Net position	39,607,620	(32,661,337)	(40,145,558)	(33,199,275)	45,769,379	8,033,749	53,803,128	20,603,853
Accumulated gap	39,607,620	6,946,283	(33,199,275)		12,570,104	20,603,853		

35 Risk management

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

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.

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity 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 also runs worst case scenarios that would arise in the event that extreme events which are 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.

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.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are managed accordingly.

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

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

35.1.1 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	Armenia	OECD countries	Non-OECD countries	Total
Cash and cash equivalents	31,843,954	-	-	31,843,954
Amounts due from other financial institutions	331,234	664,316	-	995,550
Derivative financial assets	-	-	3,086	3,086
Loans and advances to customers	124,374,376	5,511,491	5,242,025	135,127,892
Investments available for sale	13,592,031	-	-	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164
As at 31 December 2017	178,018,759	6,175,807	5,245,111	189,439,677
As at 31 December 2016	158,660,942	2,894,414	8,386,848	169,942,204

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

Industry sectors

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

In thousand Armenian drams	Financial institu-tions	Industry	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	31,843,954	-	-	-	-	-	-	-	-	-	31,843,954
Amounts due from other financial institutions	995,550	-	-	-	-	-	-	-	-	-	995,550
Derivative financial assets	3,086	-	-	-	-	-	-	-	-	-	3,086
Loans and advances to customers	-	8,240,081	525,371	9,041,322	5,612,689	23,405,955	7,743,706	53,358,355	11,386,389	15,814,024	135,127,892
Investments available for sale	13,592,031	-	-	-	-	-	-	-	-	-	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	-	-	-	-	-	-	-	7,877,164
As at 31 December 2017	54,311,785	8,240,081	525,371	9,041,322	5,612,689	23,405,955	7,743,706	53,358,355	11,386,389	15,814,024	189,439,677
As at 31 December 2016	51,315,141	9,392,922	678,384	5,162,814	3,411,431	23,225,437	8,329,690	46,671,389	12,069,140	9,685,856	169,942,204

35.1.2 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 Board of Bank.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

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

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

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans collateralized by real estate	70,670,551	72,885,020
Loans collateralized by movable property	6,386,071	1,482,968
Loans collateralized by goods in circulation	593,958	277,432
Loans collateralized by guarantees	5,616,929	6,313,192
Loans collateralized by cash	8,224,073	3,514,323
Loans collateralized by household appliances	19,080,000	14,083,535
Unsecured loans	30,313,194	26,014,383
Total loans and advances to customers (gross)	140,884,776	124,570,853

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 letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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
Loans and advances to customers		
Industry	1%	1%
Agriculture	1%	1%
Construction	1%	1%
Transportation	1.9%	1%
Trade	1.5%	1%
Service	1%	1%
Consumer	3.6%	2.13%
Mortgage	1%	1%
Other	1%	-

As of 31 December 2017 and 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 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Industry	1,294,052	398,141	44,104	1,667,960	3,404,257
Agriculture	-	-	-	366,232	366,232
Construction	1,592	-	-	798,643	800,235
Transportation and communication	4,440	114,137	-	2,663,204	2,781,781
Trade	310,566	52,353	18,524	4,679,332	5,060,775
Service	64,531	5,286	2,496	1,460,619	1,532,932
Consumer	796,398	680,328	275,558	2,396,687	4,148,971
Mortgage	242,708	17,358	24,664	636,836	921,566
Other	-	-	494	2,728,697	2,729,191
Total	2,714,287	1,267,603	365,840	17,398,210	21,745,940

In thousand Armenian drams	As of 31 December 2016				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Industry	529,141	17,314	149,489	3,548,039	4,243,983
Agriculture	6,491	-	118,658	217,435	342,584
Construction	-	131,428	-	648,750	780,178
Transportation and communication	23,860	-	-	235,437	259,297
Trade	922,821	880,014	390,715	4,706,992	6,900,542
Service	44,982	12,798	40,711	1,165,841	1,264,332
Consumer	849,411	431,530	242,150	2,080,445	3,603,536
Mortgage	358,755	97,229	16,322	779,840	1,252,146
Other	5,294	-	-	2,723,537	2,728,831
Total	2,740,755	1,570,313	958,045	16,106,316	21,375,429

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

35.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2017. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2017 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams	As at 31 December 2017						
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
AMD	+1	-	-	-	61,232	85,518	147,750
USD	+1	(12,399)	-	-	-	-	(12,399)
AMD	-1	-	-	-	(63,928)	(93,360)	(157,288)
USD	-1	12,399	-	-	-	-	12,399

In thousand Armenian drams	As at 31 December 2016						
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
AMD	+1	-	-	-	179,801	162,253	342,054
USD	+1	(24,197)	-	-	-	-	(24,197)
AMD	-1	-	-	-	(185,243)	(175,682)	(360,925)
USD	-1	24,197	-	-	-	-	24,197

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

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). 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 at 31 December 2017		As at 31 December 2016	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Change in currency rate in %**	**Effect on profit before tax**
USD	+5	(179,387)	+5	(168,715)
EUR	+5	53,240	+5	(4,394)
USD	(5)	179,387	(5)	168,715
EUR	(5)	(53,240)	(5)	4,394

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

				2017
In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	15,782,849	15,446,920	614,185	31,843,954
Amounts due from other financial institutions	210,609	784,941	-	995,550
Loans and advances to customers	71,417,556	60,261,664	3,448,672	135,127,892
Investments available for sale	5,505,736	8,086,295	-	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164
	100,793,914	84,579,820	4,062,857	189,436,591
Liabilities				
Amounts due to financial institutions	10,175,711	7,074,795	20	17,250,526
Amounts due to customers	57,769,392	67,503,761	3,154,770	128,427,923
Borrowings	5,158,260	9,586,304	-	14,744,564
Debt securities issued	250,183	4,889,177	-	5,139,360
Other financial liabilities	400,375	-	-	400,375
	73,753,921	89,054,037	3,154,790	165,962,748
Total effect of derivative financial instruments	(2,770,514)	1,979,365	784,242	(6,907)
Net position as at 31 December 2017	24,269,479	(2,494,852)	1,692,309	23,466,936
Commitments and contingent liabilities as of 31 December 2017	1,821,681	5,968,341	-	7,790,022
Total financial assets	86,439,063	80,411,349	2,992,788	169,843,200
Total financial liabilities	64,054,748	83,844,516	1,439,087	149,338,351
Total effect of derivative financial instruments	-	1,693,790	(1,594,786)	99,004
Net position as of 31 December 2016	22,384,315	(1,739,377)	(41,085)	20,603,853
Commitments and contingent liabilities as of 31 December 2016	4,411,339	1,581,734	-	5,993,073

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

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency. Refer to Note 15. 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.

As of 31 December, these ratios were as follows:

	Not audited	
	As at 31 December 2017, %	As at 31 December 2016, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	25.27	29.09
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	272.67	372.09

Analysis of financial liabilities by remaining contractual maturities

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

Analysis of financial liabilities by remaining contractual maturities is as follows:

In thousand Armenian drams	As of 31 December 2017					
	Demand and less than 1 month	From 1 to 3 months	From 1 to 3 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to financial institutions	13,843,955	385,089	1,618,942	48,741	2,145,763	18,042,490
Amounts due to customers	33,022,155	28,665,039	60,561,755	9,534,664	1,699,311	133,482,924
Borrowings	10,082	1,243	6,646,761	86,149	12,715,788	19,460,023
Debt securities issued	-	-	2,855,207	3,094,605	-	5,949,812
Other financial liabilities	400,375	-	-	-	-	400,375
Total discounted financial liabilities	47,276,567	29,051,371	71,682,665	12,764,159	16,560,862	177,335,624

In thousand Armenian drams	As of 31 December 2017					
	Demand and less than 1 month	**From 1 to 3 months**	**From 1 to 3 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	2,763,898	-	-	-	-	2,763,898
Outflow	(2,770,805)	-	-	-	-	(2,770,805)
Commitments and contingent liabilities	338,794	476,502	1,765,339	5,209,387	-	7,790,022

In thousand Armenian drams	As of 31 December 2016					
	Demand and less than 1 month	**From 1 to 3 months**	**From 1 to 3 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Financial liabilities						
Amounts due to financial institutions	195,491	995,118	1,347,032	2,087,767	1,688,679	6,314,087
Amounts due to customers	13,353,809	50,783,993	60,735,862	5,749,698	4,940,451	135,563,813
Borrowings	387,147	347,194	11,339,475	4,229,017	-	16,302,833
Debt securities issued	18,292	57,598	167,673	2,883,451	-	3,127,014
Other financial liabilities	87,639	64,511	-	-	-	152,150
Total discounted financial liabilities	14,042,378	52,248,414	73,590,042	14,949,933	6,629,130	161,459,897
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	1,693,790	-	-	-	-	1,693,790
Outflow	(1,594,786)	-	-	-	-	(1,594,786)
Commitments and contingent liabilities	268,019	844,599	1,625,022	3,255,433	-	5,993,073

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 34. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2017 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

36 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	As of 31 December 2017				
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Dividends**	**Total**
As of 1 January 2017	5,042,688	13,260,387	2,652,531	-	20,955,606
Cash-flows	*10,432,480*	*1,366,159*	*2,465,424*	*(160,051)*	*14,104,012*
Repayments	(140,507,859)	(33,378,724)	(1,728,402)	(160,051)	(175,775,03
Proceeds	150,940,339	34,744,883	4,193,826	-	189,879,04
Non-cash	*1,775,358*	*118,018*	*21,405*	*160,051*	*2,074,832*
Foreign exchange	(50,522)	(89,222)	(21,405)	-	(161,149)
Accrued interest	1,825,880	207,240	42,810	-	2,075,930
Accrual of dividends	-	-	-	160,051	160,051
As of 31 December 2017	17,250,526	14,744,564	5,139,360	-	37,134,450

37 Capital adequacy

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

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

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

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

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

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

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

In thousand Armenian drams	Not audited As of 31 December 2017	As of 31 December 2016
Tier 1 capital	28,463,986	26,770,726
Tier 2 capital	2,820,403	257,739
Total regulatory capital	31,284,389	27,028,465
Risk-weighted assets	183,593,833	155,514,758
Capital adequacy ratio	17.04%	17.38%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

38 Analysis by segment

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 “Operating Segments”.

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.

39 Events after the reporting period

The political situation in the Republic of Armenia is currently unstable due to mass demonstrations of inhabitants against the ruling political party taking place since April 13, 2018. These demonstrations are conducted with public disobedience calls and are accompanied by closing streets, bridges and other infrastructures. The Bank's management anticipates, that these processes have no significant influence on the Bank's activity, and hence, there is no need to adjust the Bank's financial statements for the year ended 31 December 2017 due to this political instability.