“Converse Bank” Closed Joint Stock Company

Consolidated financial statements

Year ended 31 December 2016
together with independent auditor’s report

Contents

Ernst & Young CJSC
1 Northern Ave., office 27
Yerevan, 0001, Armenia
Tel: +374 (10) 500 790
+374 (10) 500 705
Fax: +374 (10) 500 706
www.ey.com/am

«Էրնսթ ընդ Յանգ» ՓԲԸ
ՀՀ, ք. Երևան 0001
Հյուսիսային պող. 1, գրասենյակ 27
Հեռ. +374 (10) 500 790
+374 (10) 500 705
Ֆաքս. +374 (10) 500 706

Independent auditor's report

To the Board and Shareholders of
"Converse Bank" Closed Joint Stock Company

Opinion

We have audited the consolidated financial statements of "Converse Bank" Closed Joint Stock Company (the Bank) and its subsidiary (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management and the Board for the consolidated financial statements

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

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

The Board is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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We communicate with the Board 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.

CJSC Ernst & Young
Yerevan, Armenia

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August 2016)
Partner (Assurance) Eric Hayrapetyan

26 April 2017

Consolidated statement of financial position
as at 31 December 2016

(In thousand Armenian drams)

	Notes	*2016*	*2015*
Assets			
Cash and cash equivalents	5	44,751,939	46,029,188
Trading securities	6	184,833	207,592
Amounts due from banks	7	2,320,882	9,148,697
Loans and advances to customers	8	119,024,824	82,945,627
Investment securities available for sale	9	14,929,205	4,818,866
Securities pledged under repurchase agreements	10	–	5,484,221
Property, plant and equipment	11	6,384,767	6,612,460
Intangible assets	12	139,802	187,008
Repossessed assets	13	2,385,649	2,288,512
Current income tax assets		–	131,654
Other assets	14	871,369	1,049,340
Total assets		**190,993,270**	**158,903,165**
Liabilities and equity			
Liabilities			
Amounts due to banks	15	278,064	7,431,275
Derivative financial liabilities	16	31,591	14,495
Amounts due to customers	17	139,680,217	111,430,135
Current income tax liabilities		175,744	–
Deferred income tax liabilities	18	1,113,141	1,244,231
Other borrowed funds	19	9,096,208	9,895,217
Other liabilities	20	841,484	755,678
Subordinated debt	21	7,598,818	7,430,709
Total liabilities		**158,815,267**	**138,201,740**
Equity			
Share capital	22	16,416,633	7,002,033
Share premium		63,233	63,233
Statutory general reserve		1,005,996	1,005,996
Revaluation surplus for land and buildings		3,353,126	3,316,639
Revaluation reserve for available-for-sale financial assets		1,365,201	337,223
Retained earnings		9,973,814	8,976,301
Total equity		**32,178,003**	**20,701,425**
Total liabilities and equity		**190,993,270**	**158,903,165**

The consolidated financial statements were approved and signed by the Bank's Executive Director and Chief Accountant on 26 April 2017.

Arthur Hakobyan
Executive Director

Araqsya Araqelyan
Acting Chief accountant

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2016

(In thousand Armenian drams)

	Notes	*2016*	*2015*
Interest income	24	13,859,656	13,458,001
Interest expenses	24	(6,787,759)	(6,961,726)
Net interest income		**7,071,897**	**6,496,275**
Allowance for impairment of loans	8	(1,507,899)	(3,242,949)
Net interest income after allowance for impairment of loans		**5,563,998**	**3,253,326**
Fee and commission income	25	2,003,640	1,887,676
Fee and commission expenses	25	(763,729)	(656,310)
Net trading income	26	899,056	1,009,948
Net loss from foreign currency translation		(237,214)	(518,306)
Gains less losses from investment securities available for sale		54,229	45,838
Other income	27	943,846	944,279
Personnel expenses	28	(3,379,260)	(3,137,936)
Depreciation of property and equipment	11	(739,362)	(669,766)
Amortization of intangible assets	12	(76,339)	(127,891)
Other expenses	29	(2,623,145)	(2,556,009)
Other impairment and provisions	13, 14	(137,130)	(90,922)
Profit/(loss) before income tax		**1,508,590**	**(616,073)**
Income tax benefit/(expense)	18	56,442	(47,510)
Profit/(loss) for the year		**1,565,032**	**(663,583)**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment		213,769	(708,574)
Income tax effect	18	(42,754)	141,715
Net other comprehensive income/(loss) not to be reclassified subsequently to profit or loss		**171,015**	**(566,859)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised gains on investment securities available-for-sale		1,339,201	33,128
Realised gains on investment securities available-for-sale transferred to profit or loss		(54,229)	(45,838)
Income tax effect	18	(256,994)	2,542
Net other comprehensive income/(loss) to be reclassified subsequently to profit or loss		**1,027,978**	**(10,168)**
Other comprehensive income/(loss) for the year, net of tax		**1,198,993**	**(577,027)**
Total comprehensive income/(loss) for the year		**2,764,025**	**(1,240,610)**

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2016

(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 at 1 January 2015	**7,002,033**	**63,233**	**844,898**	**347,391**	**3,978,488**	**10,268,240**	**22,504,283**
Distribution to general reserve	–	–	161,098	–	–	(161,098)	**–**
Dividends to shareholders	–	–	–	–	–	(562,248)	**(562,248)**
Transactions with owners	**–**	**–**	**161,098**	**–**	**–**	**(723,346)**	**(562,248)**
Loss for the year	–	–	–	–	–	(663,583)	**(663,583)**
Other comprehensive loss for the year	–	–	–	(10,168)	(566,859)	–	**(577,027)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(10,168)**	**(566,859)**	**(663,583)**	**(1,240,610)**
Depreciation of revaluation reserve	–	–	–	–	(94,990)	94,990	**–**
Balance as at 31 December 2015	**7,002,033**	**63,233**	**1,005,996**	**337,223**	**3,316,639**	**8,976,301**	**20,701,425**
Issue of share capital	9,414,600	–	–	–	–	–	**9,414,600**
Dividends to shareholders	–	–	–	–	–	(702,047)	**(702,047)**
Transactions with owners	**9,414,600**	**–**	**–**	**–**	**–**	**(702,047)**	**8,712,553**
Profit for the year	–	–	–	–	–	1,565,032	**1,565,032**
Other comprehensive income for the year	–	–	–	1,027,978	171,015	–	**1,198,993**
Total comprehensive income for the year	**–**	**–**	**–**	**1,027,978**	**171,015**	**1,565,032**	**2,764,025**
Depreciation of revaluation reserve	–	–	–		(134,528)	134,528	**–**
Balance as at 31 December 2016	**16,416,633**	**63,233**	**1,005,996**	**1,365,201**	**3,353,126**	**9,973,814**	**32,178,003**

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

(In thousand Armenian drams)

	2016	*2015*
Cash flows from operating activities		
Interest received	13,110,944	13,429,082
Interest paid	(6,550,012)	(6,939,477)
Fees and commissions received	2,003,640	1,887,676
Fees and commissions paid	(763,729)	(656,310)
Net trading income received	899,056	1,009,948
Other income received	943,846	943,440
Personnel expenses paid	(3,349,030)	(3,125,110)
Other operating expenses paid	(2,615,419)	(2,492,799)
Cash flows from operating activities before changes in operating assets and liabilities	**3,679,296**	**4,056,450**
Net (increase)/decrease in operating assets		
Trading securities	22,759	(318,847)
Amounts due from banks	6,698,218	(1,961,453)
Loans and advances to customers	(38,685,135)	5,083,968
Repossessed assets	190,557	406,513
Other assets	(10,347)	(533,142)
Net increase/(decrease) in operating liabilities		
Amounts due to banks	(6,705,878)	(858,194)
Amounts due to customers	27,986,234	15,778,647
Derivative financial liabilities	17,472	(166,150)
Other liabilities	61,502	(485,708)
Net cash (used in) / from operating activities before income tax	**(6,745,322)**	**21,002,084**
Income tax paid	(41,940)	(275,495)
Net cash (used in) / from operating activities	**(6,787,262)**	**20,726,589**
Cash flows from investing activities		
Purchase of investment securities available for sale	(7,611,181)	(6,402,759)
Proceeds from sale and redemption of investment securities available for sale	3,981,403	4,237,823
Purchase of property and equipment	(430,846)	(694,328)
Purchase of intangible assets	(29,133)	(61,609)
Net cash used in investing activities	**(4,089,757)**	**(2,920,873)**
Cash flows from financing activities		
Proceeds from issue of share capital	9,414,600	–
Receipts from other borrowed funds	2,154,195	3,836,778
Repayment of other borrowed funds	(1,410,854)	(3,412,102)
Receipts of subordinated debt	343,425	–
Repayment of subordinated debt	–	(957,952)
Dividends paid to shareholders	(702,047)	(562,248)
Net cash from / (used in) financing activities	**9,799,319**	**(1,095,524)**
Net (decrease)/increase in cash and cash equivalents	**(1,077,700)**	**16,710,192**
Cash and cash equivalents at the beginning of the year	46,029,188	27,841,421
Effect of exchange rates changes on cash and cash equivalents	(199,549)	1,477,575
Cash and cash equivalents at the end of the year (Note 5)	**44,751,939**	**46,029,188**

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

1. Principal activities

Organization and operations

“Converse Bank” Closed Joint Stock Company (the “Bank”) is the parent company of the Group, which is comprised of the Bank and its subsidiary (together, the “Group”).

“Converse Bank” Closed Joint Stock Company is a closed joint-stock bank, which was incorporated in the Republic of Armenia in 1994. The Bank is regulated by the legislation of RA and conducts its business under license number 57, granted on 28 November 1994 by the Central Bank of Armenia (the “CBA”).

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

The Bank’s main office is in Yerevan and its 34 branches are located in Yerevan and in different regions, and 1 branch is located in NKR. The registered office of the Bank is located at 26/1 Vazgen Sargsyan Str., Yerevan, RA.

Advanced Global Investments LLC is the parent of the Group (80.94% of shares) as at 31 December 2016.
The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

Subsidiary of the Bank

The consolidated financial statements include the following subsidiary:

	Ownership, %			*Date of*	
Subsidiary	***2016***	***2015***	***Country***	***incorporation***	***Industry***
“Converse Collection” LLC	100%	100%	Armenia	20 April 2000	Transportation of cash, cash equivalents and other assets

Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

2. Basis of preparation

Statement of compliance

The consolidated financial statements of the Group 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”).

Basis of measurement

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

Reclassifications

The following reclassifications have been made to consolidated statement of comprehensive income for the year ended 31 December 2015 to conform to the 2016 presentation:

In thousand Armenian drams	***As previously reported***	***Reclassification***	***As adjusted***
Impairment losses	(3,271,603)	3,271,603	–
Allowance for impairment of loans and receivables	–	(3,242,949)	(3,242,949)
Other impairment and provisions	–	(90,922)	(90,922)
Other expenses	(2,618,277)	62,268	(2,556,009)

2. Basis of preparation (continued)

Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank's and its subsidiary's functional and presentation currency is Armenian dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Group. The Group prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These consolidated financial statements are based on the Group's books and records as adjusted and reclassified in order to comply with IFRS. The consolidated financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS, which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. The amendment does not have any impact on the Group.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. The amendment does not have any impact on the Group.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment does not have any impact on the Group.

Basis of consolidation

Subsidiary, which is entity where the parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary, are consolidated. Subsidiary is consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Group. Subsidiary has a reporting date of 31 December.

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group 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 Group 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 consolidated statement of comprehensive income using the effective interest method.

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

Fee and commission income

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

Dividend income

Revenue is recognized when the Group'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.

Operating rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases and is recorded in the consolidated statement of comprehensive income as "Other income".

Foreign currency translation

The consolidated financial statements are presented in Armenian drams, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as gains less losses from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. 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.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the CBA on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official exchange rates of the CBA at 31 December 2016 and 31 December 2015 were AMD 483.94 and AMD 483.75 to USD 1, respectively.

3. Summary of accounting policies (continued)

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the consolidated statement of 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 Group’s activities. These taxes are included as a component of other expenses in the consolidated statement of comprehensive income.

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), including obligatory reserves and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost.

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the consolidated statement of financial position. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

Amounts due from banks

In the normal course of business, the Group 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 banks are carried net of any allowance for impairment losses.

Financial instruments

The Group 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.

3. Summary of accounting policies (continued)

Financial instruments (continued)

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 Group classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Group 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 Group 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.

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 consolidated statement of comprehensive income.

Loans and receivables

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

Loans granted by the Group 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 consolidated statement of 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.

3. Summary of accounting policies (continued)

Financial instruments (continued)

Available-for-sale financial instruments

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

Impairment of financial assets

The Group 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 Group 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 consolidated statement of 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 Group 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 Group'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.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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 Group 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 Group. 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

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

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

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

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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 consolidated statement of comprehensive income.

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 consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to banks or customers.

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

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

Leases

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Group takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of comprehensive income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Property, plant and equipment

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

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

	Useful life (years)	***Rate (%)***
Buildings	20	5
Computers and communication equipment	1-5	20-100
Vehicles	5	20
Fixtures and fittings	5	20
Other fixed assets	5	20

3. Summary of accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

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

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

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

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

Intangible assets

Intangible assets include computer software, licences and other.

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

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

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.

Grants

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

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 consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

3. Summary of accounting policies (continued)

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 consolidated financial statements at fair value, in "Other liabilities", being the premium received. Following initial recognition, the Group'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.

Provisions

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

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

Includes 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 surplus

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

Revaluation reserve for available-for-sale securities

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

Offsetting

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

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

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact. The Group has started the process of transition to IFRS 9 and expects to finalize the implementation by the end of 2017.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases − IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. The Group does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The amendment does not have impact on the Group.

Annual improvements 2014-2016 cycle (issued in December 2016)

Following is a summary of the amendments from the 2014-2016 annual improvements cycle.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Deletion of short-term exemptions for first-time adopters:

- Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose;
- The amendment is effective from 1 January 2018. The amendment does not have impact on the Group.

4. Critical accounting estimates and judgements

The preparation of consolidated 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 consolidated financial statements are presented below:

Revaluation of land and buildings

Fair value of the properties is determined by using market comparable method. This means that valuations performed by the valuer are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The Group engages independent experts for valuation of its premises.

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 (see Note 31).

Classification of investment securities

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

Related party transactions

In the normal course of business the Group 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.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Cash and cash equivalents

In thousand Armenian drams	***2016***	***2015***
Cash on hand	10,895,951	9,872,122
Correspondent account with the CBA, including obligatory reserves	32,812,539	32,111,909
Placements with other banks	1,043,449	4,045,157
Total cash and cash equivalents	**44,751,939**	**46,029,188**

As at 31 December 2016 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 Group denominated in Armenian drams and 18% of certain obligations of the Group, denominated in foreign currency (2015: 2% of obligations denominated in Armenian drams and 20% of obligations of the Bank, denominated in foreign currency) and amounts to AMD 20,038,884 thousand (2015: AMD 19,136,759 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As at 31 December 2016 placements with other banks in the amount of AMD 926,842 thousand (89%) were due from three banks (2015: AMD 3,842,137 thousand (95%) were due from three banks).

6. Trading securities

In thousand Armenian drams	***2016***	***2015***
Debt securities issued by the Government of the RA	139,594	207,592
RA corporate bonds	45,239	–
Total trading securities	**184,833**	**207,592**

Nominal interest rates and maturities of these securities are as follows:

	2016		***2015***	
	%	***Maturity***	***%***	***Maturity***
Debt securities issued by the Government of the RA	10.0-12.0	2018-2023	8.0-11.0	2017-2020
RA corporate bonds	15.0	2018	–	–

As at 31 December 2016 there were no trading securities pledged to third parties in sale and repurchase agreements (2015: AMD 310,177 thousand).

7. Amounts due from banks

In thousand Armenian drams	***2016***	***2015***
Receivables from payment and settlement operations	1,039,310	635,324
Deposited funds with CBA	720,000	720,000
Loans and deposits to banks	4,006	7,147,471
Other	557,566	645,902
Total amounts due from banks	**2,320,882**	**9,148,697**

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

8. Loans and advances to customers

In thousand Armenian drams	***2016***	***2015***
Loans to customers	106,201,759	77,667,081
Overdrafts	15,672,506	8,927,382
Reverse repurchase agreements	1,373,788	–
Financial lease receivables	296,207	341,346
Factoring	33,629	33,790
Letter of credit	1,131	1,359
	123,579,020	**86,970,958**
Less allowance for loan impairment	(4,554,196)	(4,025,331)
Total loans and advances to customers	**119,024,824**	**82,945,627**

8. Loans and advances to customers (continued)

As at 31 December 2016 the Group had a concentration of loans totalling to AMD 49,226,623 thousand due from the ten largest groups of borrowers (40% of gross loan portfolio) (2015: AMD 19,975,139 thousand or 23% of gross loan portfolio). An allowance for impairment in the amount of AMD 1,184,887 thousand (2015: AMD 802,195 thousand) was created against these loans.

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

	2016										
In thousand Armenian drams	*Manu-facturing*	*Energy*	*Agriculture (including loans to individuals)*	*Construc-tion*	*Trading*	*Transport and communi-cations*	*Services*	*Consumer loans to individuals*	*Mortgage*	*Other*	*Total*
At 1 January 2016	**489,597**	**32,692**	**713,091**	**510,612**	**456,156**	**152,657**	**42,174**	**832,722**	**744,254**	**51,376**	**4,025,331**
Charge/(reversal) for the year	79,579	11,964	167,874	191,342	267,843	82,619	85,726	349,968	298,116	(27,132)	**1,507,899**
Amounts written off	(33,167)	–	(350,586)	(67,546)	(379,075)	(16,496)	(6,741)	(1,189,372)	(433,277)	(208,875)	**(2,685,135)**
Recoveries	11,947	–	203,948	74,082	72,999	1,319	564	683,673	436,030	221,539	**1,706,101**
At 31 December 2016	**547,956**	**44,656**	**734,327**	**708,490**	**417,923**	**220,099**	**121,723**	**676,991**	**1,045,123**	**36,908**	**4,554,196**
Individual impairment	516,800	–	706,641	673,202	316,818	215,896	50,184	22,812	758,802	1,269	**3,262,424**
Collective impairment	31,156	44,656	27,686	35,288	101,105	4,203	71,539	654,179	286,321	35,639	**1,291,772**
	547,956	**44,656**	**734,327**	**708,490**	**417,923**	**220,099**	**121,723**	**676,991**	**1,045,123**	**36,908**	**4,554,196**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**599,087**	**–**	**963,113**	**1,227,458**	**1,100,650**	**481,764**	**286,596**	**208,204**	**1,724,922**	**140,949**	**6,732,743**

	2015										
In thousand Armenian drams	*Manu-facturing*	*Energy*	*Agriculture (including loans to individuals)*	*Construc-tion*	*Trading*	*Transport and communi-cations*	*Services*	*Consumer loans to individuals*	*Mortgage*	*Other*	*Total*
At 1 January 2015	**417,018**	**61,760**	**424,734**	**1,816,376**	**416,020**	**71,937**	**40,285**	**324,902**	**506,462**	**397,774**	**4,477,268**
Charge/(reversal) for the year	75,186	(29,068)	250,601	451,528	143,696	93,275	(7,390)	1,157,604	428,358	679,159	**3,242,949**
Amounts written off	(11,983)	–	(315,987)	(1,757,490)	(198,077)	(27,647)	–	(1,200,262)	(604,143)	(1,333,567)	**(5,449,156)**
Recoveries	9,376	–	353,743	198	94,517	15,092	9,279	550,478	413,577	308,010	**1,754,270**
At 31 December 2015	**489,597**	**32,692**	**713,091**	**510,612**	**456,156**	**152,657**	**42,174**	**832,722**	**744,254**	**51,376**	**4,025,331**
Individual impairment	468,026	–	672,789	484,570	369,426	139,783	37,834	112,821	519,175	28,439	**2,832,863**
Collective impairment	21,571	32,692	40,302	26,042	86,730	12,874	4,340	719,901	225,079	22,937	**1,192,468**
	489,597	**32,692**	**713,091**	**510,612**	**456,156**	**152,657**	**42,174**	**832,722**	**744,254**	**51,376**	**4,025,331**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**591,318**	**–**	**1,069,098**	**1,105,175**	**1,103,773**	**430,444**	**228,850**	**336,273**	**1,860,820**	**339,614**	**7,065,365**

8. Loans and advances to customers (continued)

Loans and advances to customers by industries of economy may be specified as follows:

In thousand Armenian drams	*2016*	*2015*
Consumer loans to individuals	31,428,298	29,546,709
Mortgage	20,706,198	20,492,115
Transport and communication	18,626,511	4,395,824
Trading	16,181,097	9,263,987
Services	8,234,515	795,176
Construction	5,148,382	4,503,695
Energy	4,961,672	6,537,726
Agriculture (including loans to individuals)	4,621,160	4,053,981
Manufacturing	3,815,017	2,602,907
Other	9,856,170	4,778,838
	123,579,020	**86,970,958**
Less allowance for loan impairment	(4,554,196)	(4,025,331)
Total loans and advances to customers	**119,024,824**	**82,945,627**

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 Group.

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

In thousand Armenian drams	*2016*	*2015*
Privately held companies	66,469,244	29,886,465
Individuals	52,380,174	50,341,373
Sole proprietors	4,025,290	2,471,967
State owned enterprises	701,676	4,261,584
Non-commercial institutions	2,636	9,569
	123,579,020	**86,970,958**
Less allowance for loan impairment	(4,554,196)	(4,025,331)
Total loans and advances to customers	**119,024,824**	**82,945,627**

Loans to individuals comprise the following products:

In thousand Armenian drams	*2016*	*2015*
Mortgage loans	20,706,198	20,492,115
Credit card loans	15,524,600	12,895,093
Consumer loans	8,969,962	6,373,842
Gold loans	6,593,907	8,248,570
Car loans	339,898	542,277
Agriculture	243,646	302,611
Other	1,963	1,486,865
Total loans and advances to individuals (gross)	**52,380,174**	**50,341,373**

The finance lease receivables represent:

In thousand Armenian drams	*2016*	*2015*
Gross investment in finance lease, receivable		
Not later than 1 year	–	3,859
1-5 years	346,768	394,117
	346,768	**397,976**
Unearned future finance income on finance lease	(50,561)	(56,630)
Net investment in financial lease, before impairment allowance	**296,207**	**341,346**
Impairment allowance	(181,184)	(135,519)
Net investment in finance lease	**115,023**	**205,827**

8. Loans and advances to customers (continued)

The estimated fair value of loans and advances to customers as at 31 December 2016 and 31 December 2015 are disclosed in Note 31.

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

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 30.

9. Investment securities available for sale

In thousand Armenian drams	***2016***	***2015***
Government bonds	13,133,887	3,514,646
RA corporate bonds	810,726	389,861
Equity shares of OECD countries	616,646	612,771
Investments in funds	310,152	243,794
RA corporate equity shares	57,794	57,794
Total investment securities available for sale	**14,929,205**	**4,818,866**

All debt securities have fixed coupons.

RA corporate equity shares are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

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 effective interest rates and maturity date comprise:

	2016		***2015***	
In thousand Armenian drams	***%***	***Maturity***	***%***	***Maturity***
Government bonds	4.76-18.35	2017-2036	6.15-16.9	2016-2032
RA corporate bonds	6.46-12.34	2017-2019	8.77-15.85	2017-2019

As at 31 December 2016 there were no investments securities available for sale pledged under repurchase agreements (2015: AMD 5,174,044 thousand).

10. Securities pledged under repurchase agreements

In thousand Armenian drams	***2016***	***2015***
Trading securities (Note 6)	–	310,177
Investment securities (Note 9)	–	5,174,044
Total	**–**	**5,484,221**

The pledged securities are those financial assets pledged under repurchase agreements with CBA, 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.

11. Property, plant and equipment

In thousand Armenian drams	***Land and buildings***	***Fixtures and fittings***	***Vehicles***	***Computers and communication equipment***	***Other fixed assets***	***Leasehold improve-ments***	***Total***
Revalued amount or cost							
As at 1 January 2015	**5,826,965**	**681,158**	**204,820**	**2,462,132**	**643,368**	**911,456**	**10,729,899**
Additions	243,744	51,727	3,537	195,007	77,152	123,161	**694,328**
Disposals	–	(91)	–	(337)	(1,256)	–	**(1,684)**
Effect of revaluation	(787,305)	–	–	–	–	–	**(787,305)**
Transfer between categories	78,143	–	–	–	–	(78,143)	**–**
As at 31 December 2015	**5,361,547**	**732,794**	**208,357**	**2,656,802**	**719,264**	**956,474**	**10,635,238**
Additions	19,823	21,008	270	284,535	35,000	9,133	**369,769**
Disposals	(56,143)	(544)	–	(4,646)	(12,861)	(170)	**(74,364)**
Effect of revaluation	(191,209)	–	–	–	–	–	**(191,209)**
As at 31 December 2016	**5,134,018**	**753,258**	**208,627**	**2,936,691**	**741,403**	**965,437**	**10,739,434**
Accumulated depreciation							
As at 1 January 2015	**128,895**	**495,274**	**145,820**	**1,851,926**	**483,906**	**326,671**	**3,432,492**
Depreciation charge	137,750	71,953	23,755	248,503	59,022	128,783	**669,766**
Disposals	–	(46)	–	(326)	(378)	–	**(750)**
Effect of revaluation	(78,730)	–	–	–	–	–	**(78,730)**
Transfer between categories	22,750	–	–	–	1,999	(24,749)	**–**
As at 31 December 2015	**210,665**	**567,181**	**169,575**	**2,100,103**	**544,549**	**430,705**	**4,022,778**
Depreciation charge	186,575	67,079	23,779	273,744	63,161	125,024	**739,362**
Disposals	–	(151)	–	(3,746)	(6,336)	–	**(10,233)**
Effect of revaluation	(397,240)	–	–	–	–	–	**(397,240)**
As at 31 December 2016	**–**	**634,109**	**193,354**	**2,370,101**	**601,374**	**555,729**	**4,354,667**
Carrying value							
As at 1 January 2015	**5,698,070**	**185,884**	**59,000**	**610,206**	**159,462**	**584,785**	**7,297,407**
As at 31 December 2015	**5,150,882**	**165,613**	**38,782**	**556,699**	**174,715**	**525,769**	**6,612,460**
As at 31 December 2016	**5,134,018**	**119,149**	**15,273**	**566,590**	**140,029**	**409,708**	**6,384,767**

Revaluation of assets

The buildings and land owned by the Group were revalued by an independent appraiser in 2016. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 931,932 thousand as at 31 December 2016 (2015: AMD 995,456 thousand).

Fully depreciated items

As at 31 December 2016 property, plant and equipment included fully depreciated assets in the amount of AMD 2,200,044 thousand (2015: 1,941,920 thousand).

Property, plant and equipment in the phase of installation

As at 31 December 2016 property, plant and equipment included assets in the phase of installation in the amount of AMD 139,395 thousand (2015: AMD 91,843 thousand).

Restrictions on title of property, plant and equipment

As at 31 December 2016 and 2015, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

12. Intangible assets

In thousand Armenian drams	***Licenses***	***Computer software***	***Other***	***Total***
Cost				
As at 1 January 2015	**616,444**	**51,634**	**67,266**	**735,344**
Additions	52,828	8,732	49	**61,609**
As at 31 December 2015	**669,272**	**60,366**	**67,315**	**796,953**
Additions	16,014	1,200	11,919	**29,133**
As at 31 December 2016	**685,286**	**61,566**	**79,234**	**826,086**
Accumulated amortisation				
As at 1 January 2015	**424,904**	**32,614**	**24,536**	**482,054**
Amortisation charge	114,476	4,855	8,560	**127,891**
As at 31 December 2015	**539,380**	**37,469**	**33,096**	**609,945**
Amortisation charge	62,230	4,001	10,108	**76,339**
As at 31 December 2016	**601,610**	**41,470**	**43,204**	**686,284**
Carrying value				
As at 1 January 2015	**191,540**	**19,020**	**42,730**	**253,290**
As at 31 December 2015	**129,892**	**22,897**	**34,219**	**187,008**
As at 31 December 2016	**83,676**	**20,096**	**36,030**	**139,802**

Fully amortized items

As at 31 December 2016, intangible assets included fully amortized assets in amount of AMD 441,977 thousand (2015: AMD 349,712 thousand).

13. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 31 December 2016 are shown below:

In thousand Armenian drams	***2016***	***2015***
Property	2,353,995	2,217,598
Vehicles	17,000	13,400
Other	14,654	57,514
Total	**2,385,649**	**2,288,512**

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell. During 2016 impairment loss on repossessed assets in amount of AMD 100,563 thousand was recognized (2015: AMD 62,268 thousand).

14. Other assets

In thousand Armenian drams	***2016***	***2015***
Accounts receivable	325,778	320,653
Receivables on cash transfers	14,116	29,336
Total other financial assets	**339,894**	**349,989**
Less allowance for impairment of financial assets	(59,174)	(45,203)
Total net other financial assets	**280,720**	**304,786**
Materials	223,816	191,552
Precious metals	205,035	421,580
Prepayments to suppliers	88,803	68,095
Other prepaid taxes	40,006	24,044
Unamortized insurance premium	29,479	27,033
Settlements with employees	1,645	10,385
Other	1,865	1,865
Total non-financial assets	**590,649**	**744,554**
Total other assets	**871,369**	**1,049,340**

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

In thousand Armenian drams	***Total***
As at 1 January 2015	**48,317**
Charge for the year	28,654
Amounts written off	(31,768)
As at 31 December 2015	**45,203**
Charge for the year	36,567
Amounts written off	(22,596)
As at 31 December 2016	**59,174**

15. Amounts due to banks

In thousand Armenian drams	***2016***	***2015***
Correspondent accounts of other banks	224,626	235,850
Repurchase agreements with CBA	–	5,302,646
Loans from banks	–	1,800,961
Other amounts	53,438	91,818
Total amounts due to banks	**278,064**	**7,431,275**

As at 31 December 2016 the Group does not have loans from banks (2015: one counterparty comprised 100% of total amount of Loans from banks).

16. Derivative financial liabilities

	2016			***2015***		
In thousand Armenian drams	***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	3,396,500	–	31,591	4,160,250	–	14,495
Total derivative liabilities	**3,396,500**	**–**	**31,591**	**4,160,250**	**–**	**14,495**

17. Amounts due to customers

In thousand Armenian drams	*2016*	*2015*
Corporate customers		
Current/settlement accounts	33,450,564	32,545,909
Time deposits	35,193,241	16,676,273
	68,643,805	**49,222,182**
Retail customers		
Current/settlement accounts	21,002,322	18,584,272
Time deposits	50,034,090	43,623,681
	71,036,412	**62,207,953**
Total amounts due to customers	**139,680,217**	**111,430,135**

Customer deposits carry fixed rates.

As at 31 December 2016 included in amounts due to customers are deposits amounting to AMD 31,826,259 thousand (2015: AMD 8,059,007 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates their carrying amount.

As at 31 December 2016 the aggregate balance due to top ten customers of the Group amounts to AMD 65,612,790 thousand (2015: AMD 52,933,661 thousand) or 47.0% of total customer accounts (2015: 47.5%).

18. Taxation

The corporate income tax expense comprises:

In thousand Armenian drams	*2016*	*2015*
Current tax charge	409,468	2,369
Adjustments of current income tax of previous years	(35,072)	15,540
Deferred tax (credit)/charge – origination and reversal of temporary differences	(430,838)	29,601
Total income tax (benefit)/expense	**(56,442)**	**47,510**

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2015: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	*2016*	*2015*
Profit/(loss) before tax	**1,508,590**	**(616,073)**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	**301,718**	**(123,215)**
Non-deductible expenses	149,362	155,185
Adjustments of current income tax of previous years	(35,072)	15,540
Deferred tax assets recognized due to increase of estimated tax base of PPE in 2016 (see below)	(472,450)	–
Income tax (benefit)/expense	**(56,442)**	**47,510**

In 2016 the Group changed its estimation for tax base of property, plant and equipment due to clarification letter received from RA tax authorities. This resulted in recognition of additional deferred tax asset in the amount of AMD 472,450 thousand in 2016.

18. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2016 and 2015 and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 1 January 2015	***In the statement of profit or loss***	***In other compre-hensive income***	***Balance 31 December 2015***	***In the statement of profit or loss***	***In other compre-hensive income***	***Balance 31 December 2016***
Repossessed assets	7,752	11,344	–	19,096	20,113	–	39,209
Other assets	22,613	(16,359)	–	6,254	20,936	–	27,190
Other liabilities	27,760	7,796	–	35,556	5,607	–	41,163
Total deferred tax assets	**58,125**	**2,781**	**–**	**60,906**	**46,656**	**–**	**107,562**
Loans and advances to customers	(392,945)	(111,901)	–	(504,846)	(121,430)	–	(626,276)
Securities available for sale	(83,024)	–	2,542	(80,482)	–	(256,994)	(337,476)
Property, plant and equipment	(951,104)	89,659	141,715	(719,730)	507,340	(42,754)	(255,144)
Amounts due to customers	10,061	(10,140)	–	(79)	(1,728)	–	(1,807)
Total deferred tax liabilities	**(1,417,012)**	**(32,382)**	**144,257**	**(1,305,137)**	**384,182**	**(299,748)**	**(1,220,703)**
Net deferred tax liability	**(1,358,887)**	**(29,601)**	**144,257**	**(1,244,231)**	**430,838**	**(299,748)**	**(1,113,141)**

19. Other borrowed funds

In thousand Armenian drams	***2016***	***2015***
Loans from CBA	3,977,980	4,031,622
Loans from other financial institutions	3,762,757	3,339,162
Loans from international financial organizations	1,331,482	2,443,824
Loans from Government of the RA	23,989	80,609
Total other borrowed funds	**9,096,208**	**9,895,217**

As at 31 December 2016 Loans from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

Loans from international financial organizations include loans from European Bank for Reconstruction and Development.

Loans from other financial organizations include loans from First Mortgage Company and Home for Youth UCO.

Covenants

As at 31 December 2016 and 2015 the Group breached certain covenants under the loan agreement with the European Bank of Development and Reconstruction (EBRD). The Group did not obtain a waiver from the EBRD, therefore the loans amounting to AMD 1,331,482 thousand (2015: AMD 2,443,824 thousand) from EBRD were classified as "Within one year" in maturity analysis in Note 34 and "Demand and less than 1 month" in liquidity risk analysis in Note 35.

20. Other liabilities

In thousand Armenian drams	***2016***	***2015***
Accounts payables	205,996	181,430
Due to personnel	193,719	163,489
Total other financial liabilities	**399,715**	**344,919**
Tax payable, other than income tax	404,649	120,504
Grants related to assets	28,432	30,856
Provision for tax liabilities, fines and penalties	–	253,353
Other	8,688	6,046
Total other non-financial liabilities	**441,769**	**410,759**
Total other liabilities	**841,484**	**755,678**

Grants related to assets

In thousand Armenian drams	***2016***	***2015***
As at 1 January	**30,856**	**33,278**
Recognition of income (Note 27)	(2,424)	(2,422)
As at 31 December	**28,432**	**30,856**

21. Subordinated debt

In thousand Armenian drams	***2016***	***2015***
Subordinated debt provided by related party	7,598,818	7,430,709
	7,598,818	**7,430,709**

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

Subordinated debt from related party is issued in USD, with average effective interest rate of 6.87% per annum (2015: 6.16%) with contractual maturity from January 2017 to February 2023 (See Note 34).

22. Equity

As at 31 December 2016 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2015: AMD 7,002,033 thousand).

The share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2015: 23,340 ordinary shares and 333 privileged shares).

The respective shareholdings as at 31 December 2016 and 31 December 2015 may be specified as follows:

	2016		***2015***	
In thousand Armenian drams	***Paid-in share capital***	***% of total paid-in capital***	***Paid-in share capital***	***% of total paid-in capital***
Advanced Global Investments LLC	13,287,900	80.94	6,651,900	95.00
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	2,307,900	14.06	–	–
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	350,100	5.00
	16,416,633	**100**	**7,002,033**	**100**

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 preference shareholders are entitled to receive annual dividends amounting 20% of the nominal value of the shares they own if decision on dividend payment is made by authorized body.

22. Equity (continued)

According to decision of Meeting of Shareholders dated on 23 June 2016 dividends declared and paid by the Bank amounted to AMD 702,040 thousand (2015: AMD 562,242 thousand) for ordinary shares and 6.6 thousand (2015: AMD 6.6 thousand) were paid to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 12,829 (2015: AMD 24,089), and dividends per preference share amounted to AMD 19.8 (2015: 19.8).

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes.

23. 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Management believes that the Group 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 Group, will not have a material adverse impact on the financial condition or results of future operations of the Group.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Group 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 consolidated statement of financial position.

As at 31 December 2016 the nominal or contract amounts were:

In thousand Armenian drams	***2016***	***2015***
Undrawn loan commitments	6,051,046	5,518,235
Guarantees	3,516,421	1,691,965
Letters of credit	1,787,858	–
Total commitments and contingent liabilities	**11,355,325**	**7,210,200**

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

Operating lease commitments – Group as a lessee

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

In thousand Armenian drams	***2016***	***2015***
Not later than 1 year	461,427	488,686
1-5 years	1,124,462	1,341,220
Later than 5 years	789,268	875,027
Total operating lease commitments	**2,375,157**	**2,704,933**

23. Contingent liabilities and commitments (continued)

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as at 31 December 2016 the Group possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

24. Interest income and expenses

In thousand Armenian drams	*2016*	*2015*
Loans and advances to customers	12,246,696	12,087,657
Debt securities available-for-sale	1,206,518	929,731
Amounts due from banks	400,786	434,354
Other interest income	5,656	6,259
Total interest income	**13,859,656**	**13,458,001**
Amounts due to customers	5,468,707	5,195,451
Other borrowed funds	808,286	791,850
Subordinated debt	473,964	765,471
Amounts due to banks	36,802	208,954
Total interest expense	**6,787,759**	**6,961,726**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2016, comprised AMD 125,489 thousand (2015: AMD 384,490 thousand).

25. Fee and commission income and expenses

In thousand Armenian drams	*2016*	*2015*
Plastic cards operations	840,208	838,569
Wire transfer fees	567,315	556,537
Settlement operations	327,716	263,601
Guarantees and letters of credit	53,267	42,903
Other	215,134	186,066
Total fee and commission income	**2,003,640**	**1,887,676**
Plastic cards operations	468,958	434,045
Settlement operations	171,014	100,463
Wire transfer fees	94,081	84,925
Guarantees and letters of credit	681	11,761
Other expenses	28,995	25,116
Total fee and commission expense	**763,729**	**656,310**

26. Net trading income

In thousand Armenian drams	*2016*	*2015*
Net gains from foreign currency transactions	1,634,306	1,080,235
Net gain/(loss) from trading securities	36,940	(3,597)
Net loss on derivative financial instruments	(772,190)	(66,690)
Total net trading income	**899,056**	**1,009,948**

27. Other income

In thousand Armenian drams	***2016***	***2015***
Fines and penalties received	781,173	728,931
Income from cash collection services	33,489	68,380
Net income from operations with precious metals	5,759	40,328
Dividend income	4,469	4,133
Income from grants	2,424	2,422
Income from sale of fixed assets	330	839
Other income	116,202	99,246
Total other income	**943,846**	**944,279**

28. Personnel expenses

In thousand Armenian drams	***2016***	***2015***
Salaries	3,346,119	3,105,119
Other expenses	33,141	32,817
Total personnel	**3,379,260**	**3,137,936**

29. Other expenses

In thousand Armenian drams	***2016***	***2015***
Operating lease	476,212	485,145
Advertising costs	382,922	248,571
Security	191,309	192,454
Armenian Software expenses	168,840	149,388
Expenses related to ArCa	150,881	121,223
Insurance of deposits	137,746	112,924
Communications	129,409	125,030
Fixed assets maintenance	103,686	98,210
Consulting and other services	103,599	86,901
Insurance expenses	92,605	102,505
Office supplies	47,084	48,792
Taxes, other than income tax, duties	30,587	52,588
Business trip expenses	18,417	18,484
Loss from revaluation of land and buildings	7,738	–
Penalties paid	4,866	6,420
Provision for tax liabilities, fines and penalties	–	253,353
Loss on disposal of repossessed collateral	–	63,210
Other expenses	577,244	390,811
	2,623,145	**2,556,009**

30. Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of these consolidated financial statements, related parties include shareholders with significant influence, entities under common control, members of Group's Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

30. Transaction with related parties (continued)

A number of banking transactions are entered into with related parties. 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:

	2016			*2015*		
In thousand Armenian drams	***Parent***	***Entities under common control***	***Key management personnel and their close family members***	***Parent***	***Entities under common control***	***Key management personnel and their close family members***
Consolidated statement of financial position						
Loans and advances to customers						
Loans outstanding at 1 January, gross	**12,874**	**4,150,912**	**244,030**	**24,105**	**4,158,979**	**230,850**
Loans issued during the year	98,578	55,366,239	544,808	196,042	5,630,317	514,541
Loan repayments during the year	(106,641)	(30,565,570)	(611,177)	(207,273)	(5,638,384)	(501,361)
Loans outstanding at 31 December, gross	**4,811**	**28,951,581**	**177,661**	**12,874**	**4,150,912**	**244,030**
Less: allowance for loan impairment	(48)	(289,516)	(1,777)	(129)	(41,509)	(2,440)
Loans outstanding as of 31 December, net	**4,763**	**28,662,065**	**175,884**	**12,745**	**4,109,403**	**241,590**
Amounts due to customers						
Deposits at 1 January	**114,430**	**28,014,157**	**100,227**	**126,002**	**20,306,443**	**147,256**
Deposits received during the year	14,857,283	675,611,740	3,300,673	2,016,506	711,136,996	1,915,324
Deposits repaid during the year	(14,623,608)	(664,823,768)	(3,233,355)	(2,028,078)	(703,429,282)	(1,962,353)
Deposits as of 31 December	**348,105**	**38,802,129**	**167,545**	**114,430**	**28,014,157**	**100,227**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	**–**	**7,430,709**	**–**	**–**	**7,087,003**	**–**
Subordinated debt received during the year	–	338,758	–	–	–	–
Subordinated debt repaid during the year	–	–	–	–	–	–
Net result from FX revaluation	–	(170,649)	–	–	343,706	–
Subordinated debt as of 31 December	**–**	**7,598,818**	**–**	**–**	**7,430,709**	**–**
Consolidated statement of comprehensive income						
Interest income	–	1,198,588	15,493	1,612	382,627	17,203
Fee and commission income	431	19,576	784	675	24,448	478
Other income	2,190	105,412	1,362	2,685	87,789	865
Interest expense	(18,641)	(1,417,551)	(9,382)	–	(1,571,553)	(5,999)
Impairment charge	81	(248,007)	663	112	81	(132)
Other expenses	(8,660)	(51,908)	(29,465)	–	(84,783)	(217)

The loans issued to key management personnel (and close family members) have maturity from 1 year to 20 years (2015: from 1 year to 20 years) and interest rates of 6-22% (2015: 6-24%), loans issued to other related parties have maturity from 1 year to 20 years (2015: from 1 year to 20 years) and interest rates of 7-22% (2015: 8-22%). The loans are collateralised by gold, real estate, cash and other assets.

Deposits of key management personnel (and close family members) have maturity from 1 year to 2 years (2015: from 1 year to 3 years) and have interest rates of 6-15% (2015: 1-15%), deposits of other related parties have maturity from 1 year to 13 years (2015: from 1 year to 13 years) and have interest rates of 6-15% (2015: 3-15%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	***2016***	***2015***
Salaries and other short-term benefits	405,774	381,303
Total key management compensation	**405,774**	**381,303**

31. Fair value measurement

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

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

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

Financial and non-financial assets and liabilities measured at fair value in the consolidated 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).

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 consolidated statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

		2016		
In thousand Armenian drams	***Level 1***	***Level 3***	***Total fair values***	***Total carrying amount***
Financial assets				
Loans and advances to customers	–	110,355,038	**110,355,038**	**119,024,824**
Cash and cash equivalents	44,751,939	–	**44,751,939**	**44,751,939**
Amounts due from banks	–	2,320,882	**2,320,882**	**2,320,882**
Other financial assets	–	280,720	**280,720**	**280,720**
Financial liabilities				
Amounts due to customers	–	139,680,217	**139,680,217**	**139,680,217**
Other borrowed funds	–	9,096,208	**9,096,208**	**9,096,208**
Subordinated debt	–	7,598,818	**7,598,818**	**7,598,818**
Other financial liabilities	–	399,715	**399,715**	**399,715**
Amounts due to banks	–	278,064	**278,064**	**278,064**

		2015		
In thousand Armenian drams	***Level 1***	***Level 3***	***Total fair values***	***Total carrying amount***
Financial assets				
Loans and advances to customers	–	80,922,222	**80,922,222**	**82,945,627**
Cash and cash equivalents	46,029,188	–	**46,029,188**	**46,029,188**
Amounts due from banks	–	9,148,697	**9,148,697**	**9,148,697**
Other financial assets	–	304,786	**304,786**	**304,786**
Financial liabilities				
Amounts due to customers	–	111,430,135	**111,430,135**	**111,430,135**
Other borrowed funds	–	9,895,217	**9,895,217**	**9,895,217**
Amounts due to banks	–	7,431,275	**7,431,275**	**7,431,275**
Subordinated debt	–	7,430,709	**7,430,709**	**7,430,709**
Other financial liabilities	–	344,919	**344,919**	**344,919**

31. Fair value measurement (continued)

Financial instruments that are not measured at fair value (continued)

Amounts due from and to banks

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 8% to 24% per annum (2015: 8% 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.

Amounts due to customers

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

Financial instruments that are measured at fair value

		2016	
In thousand Armenian drams	***Level 1***	***Level 2***	***Total***
Financial assets			
Investments available for sale	604,112	14,267,299	**14,871,411**
Trading securities	–	184,833	**184,833**
Total	**604,112**	**14,452,132**	**15,056,244**
Financial liabilities			
Derivative financial liabilities	–	31,591	**31,591**
Total	**–**	**31,591**	**31,591**
Net fair value	**604,112**	**14,420,541**	**15,024,653**

		2015	
In thousand Armenian drams	***Level 1***	***Level 2***	***Total***
Financial assets			
Securities pledged under repurchase agreements	–	5,484,221	**5,484,221**
Investments available for sale	600,237	4,160,835	**4,761,072**
Trading securities	–	207,592	**207,592**
Total	**600,237**	**9,852,648**	**10,452,885**
Financial liabilities			
Derivative financial liabilities	–	14,495	**14,495**
Total	**–**	**14,495**	**14,495**
Net fair value	**600,237**	**9,838,153**	**10,438,390**

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

Unquoted RA equity securities

The fair value of Bank's investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 9 for further information about this equity investments.

31. Fair value measurement (continued)

Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	***2016***	
	Level 3	***Total***
Non financial assets		
Land and buildings	5,134,018	5,134,018
Total	**5,134,018**	**5,134,018**

In thousand Armenian drams	***2015***	
	Level 3	***Total***
Non financial assets		
Land and buildings	5,150,882	5,150,882
Total	**5,150,882**	**5,150,882**

Fair value measurements in Level 3

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

In thousand Armenian drams	***Land and buildings***	***Total***
Non financial assets		
Balance as at 1 January 2016	5,150,882	5,150,882
Purchases	19,823	19,823
Gain/loss recognised in statement of comprehensive income	206,031	206,031
Disposals	(56,143)	(56,143)
Depreciation charge	(186,575)	(186,575)
Net fair value at 31 December 2016	**5,134,018**	**5,134,018**

In thousand Armenian drams	***Land and buildings***	***Total***
Non financial assets		
Balance as at 1 January 2015	5,698,070	5,698,070
Purchases	243,744	243,744
Gain/loss recognised in statement of comprehensive income	(708,575)	(708,575)
Transfer between PPE categories	78,143	78,143
Accumulated depreciation	(160,500)	(160,500)
Net fair value at 31 December 2015	**5,150,882**	**5,150,882**

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

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

The land and buildings were revaluated on 31 December 2016. The land and buildings were previously revalued on 31 December 2015.

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

32. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognized in their entirety

The following table provides a summary of financial assets as at 31 December 2015 which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition (no such assets as at 31 December 2016).

		2015		
In thousand Armenian drams	***Transferred financial asset***	***Trading securities***	***Investment securities available for sale***	***Total***
Carrying amount of assets	Repurchase agreements	310,177	5,174,044	**5,484,221**
Total		**310,177**	**5,174,044**	**5,484,221**
Carrying amount of associated liabilities	Repurchase agreements	326,388	4,976,258	**5,302,646**
Total		**326,388**	**4,976,258**	**5,302,646**
Net position		**(16,211)**	**197,786**	**181,575**

Repurchase agreements

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Similarly the Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the Group, which instead records a separate asset for any cash given.

As at 31 December 2016 the Group does not have securities sold under repurchase agreements (2015: AMD 5,484,221 thousand), which were classified as available for sale and trading securities.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the consolidated statement of financial position as at 31 December 2015 as amounts due to banks with carrying amount of AMD 5,302,646 thousand.

33. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements which do not result in an offset in the consolidated statement of financial position:

				Related amounts not offset in the consolidated statement of financial position		
In thousand Armenian drams	***Gross amount of recognized financial assets***	***Gross amount of recognized financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial assets recognized in the consolidated statement of financial position***	***Financial instruments***	***Cash collateral received***	***Net amount***
2016						
Financial assets						
Loans and advances to customers – reverse repo	1,373,788	–	1,373,788	(1,373,788)	–	–
Total	**1,373,788**	**–**	**1,373,788**	**(1,373,788)**	**–**	**–**

33. Offsetting of financial instruments (continued)

In thousand Armenian drams	**Gross amount of recognized financial assets**	**Gross amount of recognized financial liabilities set off in the statement of financial position**	**Net amount of financial assets recognized in the consolidated statement of financial position**	**Related amounts not offset in the consolidated statement of financial position**		
				Financial instruments	**Cash collateral received**	**Net amount**
2015						
Financial liabilities						
Repurchase agreements	5,302,646	–	5,302,646	(5,302,646)	–	–
Total	**5,302,646**	**–**	**5,302,646**	**(5,302,646)**	**–**	**–**

34. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 35 for the Group's contractual undiscounted repayment obligations.

In thousand Armenian drams	**2016**			**2015**		
	Within one year	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Assets						
Cash and cash equivalents	44,751,939	–	**44,751,939**	46,029,188	–	**46,029,188**
Trading securities	5,080	179,753	**184,833**	–	207,592	**207,592**
Amounts due from banks	1,043,316	1,277,566	**2,320,882**	7,783,565	1,365,132	**9,148,697**
Loans and advances to customers	61,217,503	57,807,321	**119,024,824**	36,374,317	46,571,310	**82,945,627**
Investments available for sale	577,781	14,351,424	**14,929,205**	660,928	4,157,938	**4,818,866**
Securities pledged under repurchase agreements	–	–	**–**	–	5,484,221	**5,484,221**
Property, plant and equipment	–	6,384,767	**6,384,767**	–	6,612,460	**6,612,460**
Intangible assets	–	139,802	**139,802**	–	187,008	**187,008**
Repossessed assets	2,385,649	–	**2,385,649**	2,288,512	–	**2,288,512**
Current income tax assets	–	–	**–**	131,654	–	**131,654**
Other assets	645,320	226,049	**871,369**	304,786	744,554	**1,049,340**
Total	**110,626,588**	**80,366,682**	**190,993,270**	**93,572,950**	**65,330,215**	**158,903,165**
Liabilities						
Amounts due to banks	205,473	72,591	**278,064**	7,350,275	81,000	**7,431,275**
Derivative liabilities	31,591	–	**31,591**	14,495	–	**14,495**
Amounts due to customers	133,818,864	5,861,353	**139,680,217**	106,800,783	4,629,352	**111,430,135**
Other borrowed funds	2,725,870	6,370,338	**9,096,208**	3,368,929	6,526,288	**9,895,217**
Current income tax liabilities	175,744	–	**175,744**	–	–	**–**
Deferred income tax liabilities	–	1,113,141	**1,113,141**	–	1,244,231	**1,244,231**
Other liabilities	436,835	404,649	**841,484**	344,919	410,759	**755,678**
Subordinated debt	1,739,946	5,858,872	**7,598,818**	–	7,430,709	**7,430,709**
Total	**139,134,323**	**19,680,944**	**158,815,267**	**117,879,401**	**20,322,339**	**138,201,740**
Net position	**(28,507,735)**	**60,685,738**	**32,178,003**	**(24,306,451)**	**45,007,876**	**20,701,425**

The maturity analysis does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period "Within one year" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Armenian legislation, the Group is obliged to repay term deposits of individuals upon demand of a depositor.

35. Risk management

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

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Group and is designed to improve the financial position and the reputation of the Group.

The aim of the risk management process is the assistance to the management of the Group in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Group and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Group's authorized body. The identification, measurement, supervision and monitoring of the Group's risks are ongoing and regular processes. The risk analysis is an integral part of the Group's strategic planning, as well as the evaluation of investment programs. The Group's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Group's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the Group, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

Risk management structure

The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Board

The Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction

The Bank's Executive Board implements the following for the purpose of risk management:

- Approval of complex measures, in agreement with the Board, based on the Group's risk management, associated with the Group's profitability in the critical situations, as well as operating, strategic, reputational and legal risks;
- Determining prohibitions for several transactions;
- Determining limits for transactions without collateral in inter-bank markets;
- Determining internal norms for banking risks regulation and supervision.

The Executive Board is responsible for the management of the Group's assets and liabilities, as well as the overall financial system. The Bank's Executive Board is also responsible for the Group's liquidity financial risks. The Executive Board is designed to fulfil the functions of the Group's Assets and Liabilities Management Committee.

Risk management division

The main functions of the risk management division are:

- Elaboration and implementation of active mechanisms and processes for risk management in the Group, as well as monitoring over their implementation;
- Analysis of the risk level of loans issued by the Group and the monitoring over the lending process in the framework of program loans;
- Monitoring of issued loans, identification of issues related to them and reporting;
- Supervision over the evaluation of pledged property and periodical revaluations of the pledged property;
- Organization of the insurance process of the Group's property;
- Management of the doubtful loans portfolio.

35. Risk management (continued)

Risk management structure (continued)

Internal audit

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

Risk measurement and reporting systems

Depending upon various factors, the Group divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors, price and competition risks.

Internal risks of the Group are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, capital decrease, staff and money laundering risks.

The country risk is managed by the Group using the rating of international rating agencies (Moody's, S&P, Fitch), granted to international banks and organizations. The risk management division monitors the rating of internal bank counterparties of the Group and quarterly presents to the Bank's Executive Board approval the limits for each bank.

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets' structural, volume and price indicators' dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile etc.

The management of competition risk is implemented by the business divisions and marketing department, by periodically comparing the range of services and conditions provided by the Group and its competitors.

The interest rate risk is managed by the Risk Management Division of the Group by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Group's Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models for interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis.

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Group's Risk management division presents monthly analysis of the Group's expected repayments, amounts to be lent and the positions to the Group's Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Group, limits of amounts attracted by the Group, their types or gross interest expenses, limits on concentrations of the financial sources used by the Group for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Group's related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Group's assets and liabilities, the ways of coordinating the Group's other divisions activities, who can influence the Group's liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Group's executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.) The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti money laundering legislation and Bank's internal legal acts.

35. Risk management (continued)

Risk management structure (continued)

Excessive risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

For avoiding the excessive risk concentrations, the Group's policy and processes includes special principles aimed at maintaining diversified assets types, loan and securities portfolios.

Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group'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 Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk is managed in accordance with the Group's credit policy and the internal legal acts regulating the sphere. The risk management division implements daily monitoring of the loan portfolio, calculation of dynamics based on the structured series and analysis of the quality of loan portfolio by products and branches, which is used for forecasting the qualitative indicators of the loan portfolio. The risk management division also conducts monitoring of different loan types in accordance with approved procedures, and monitors also other loans if it is necessary in case of worsening of the borrower's creditability. The loans issued by the Group are also approved by the risk management division in accordance with the requirements of internal legal acts for reducing the credit risk. The credit risk management and control are centralised in Risk Management Division and reported to the Executive Board regularly.

As at 31 December 2016 and 31 December 2015 the carrying amounts of the Group'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.

Risk concentrations

Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as at 31 December 2016 and 31 December 2015.

In thousand Armenian drams	***Armenia***	***Other non-OECD countries***	***OECD countries***	***Total***
Cash and cash equivalents	43,719,886	156,599	875,454	**44,751,939**
Trading securities	184,833	–	–	**184,833**
Amounts due from banks	1,569,380	173,042	578,460	**2,320,882**
Loans and advances to customers	92,934,554	15,863,791	10,226,479	**119,024,824**
Investments available for sale	14,312,559	–	616,646	**14,929,205**
Other financial assets	111,623	84	169,013	**280,720**
As at 31 December 2016	**152,832,835**	**16,193,516**	**12,466,052**	**181,492,403**

In thousand Armenian drams	***Armenia***	***Other non-OECD countries***	***OECD countries***	***Total***
Cash and cash equivalents	42,002,034	1,705,281	2,321,873	**46,029,188**
Trading securities	207,592	–	–	**207,592**
Amounts due from banks	8,292,328	194,690	661,679	**9,148,697**
Loans and advances to customers	79,448,566	3,484,204	12,857	**82,945,627**
Investments available for sale	4,206,095	–	612,771	**4,818,866**
Securities pledged under repurchase agreements	5,484,221	–	–	**5,484,221**
Other financial assets	120,027	30,959	153,800	**304,786**
As at 31 December 2015	**139,760,863**	**5,415,134**	**3,762,980**	**148,938,977**

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

35. Risk management (continued)

Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties.
- Charges over business assets such as premises, equipment, inventory and vehicles.
- Gold and cash.

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 Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

In thousand Armenian drams	***2016***	***2015***
Loans collateralized by real estate	58,061,771	49,805,080
Loans collateralized by cash	27,221,417	6,500,593
Loans collateralized by gold	13,485,219	11,191,936
Loans collateralized by guarantees of enterprises	5,895,609	4,077,012
Loans collateralized by vehicles	1,977,955	2,778,470
Loans collateralized by securities	1,513,789	–
Loans collateralized by equipment	1,485,529	2,316,309
Loans collateralized by inventories	896,863	374,423
Other collateral	5,155,737	6,228,448
Unsecured loans	7,885,131	3,698,687
Total loans and advances to customers (gross)	**123,579,020**	**86,970,958**

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.

The fair value of collateral that the Group holds relating to the loans with individual signs of impairment at 31 December 2016 amounts to AMD 8,147,725 thousand (2015: AMD 8,082,905 thousand).

35. Risk management (continued)

Risk limit control and mitigation policies (continued)

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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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 Group 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 Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group estimates impairment for loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified. The Group addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group 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, market loss experience, 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.

35. Risk management (continued)

Impairment and provisioning policies (continued)

Loans and advances neither past due or impaired

In the table below loans to customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises not past due loans below standard grade but not individually impaired.

	Neither past due nor impaired			Past due but		
In thousand Armenian drams	***High grade***	***Standard grade***	***Sub-standard grade***	***not individually impaired***	***Individually impaired***	***Total***
31 December 2016						
Loans and advances to customers	27,221,417	88,178,139	–	1,446,721	6,732,743	**123,579,020**

	Neither past due nor impaired			Past due but		
In thousand Armenian drams	***High grade***	***Standard grade***	***Sub-standard grade***	***not individually impaired***	***Individually impaired***	***Total***
31 December 2015						
Loans and advances to customers	6,500,593	71,630,487	–	1,774,513	7,065,365	**86,970,958**

Past due but not individually impaired loans

Past due loans and advances include those that are past due but not individually impaired. Analysis of past due loans by age and by class is provided below.

			2016		
In thousand Armenian drams	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 91 days***	***Total***
Loans and advances to customers					
Manufacture	–	–	21,986	11,343	**33,329**
Agriculture	994	–	1,281	21,290	**23,565**
Trade	21,428	–	5,357	73,518	**100,303**
Consumer loans to individuals	107,802	103,187	58,902	589,546	**859,437**
Mortgage	64,917	18,038	42,889	260,418	**386,262**
Other sectors	3,622	–	–	40,203	**43,825**
Total	**198,763**	**121,225**	**130,415**	**996,318**	**1,446,721**

			2015		
In thousand Armenian drams	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 91 days***	***Total***
Loans and advances to customers					
Manufacture	–	2,693	–	12,796	**15,489**
Agriculture	11,723	2,513	4,172	34,486	**52,894**
Construction	12,574	–	–	–	**12,574**
Trade	14,753	1,960	3,495	34,247	**54,455**
Transport and communication	–	–	–	13,950	**13,950**
Consumer loans to individuals	249,086	164,168	92,860	652,281	**1,158,395**
Mortgage	147,543	54,720	66,002	172,776	**441,041**
Services	–	144	–	–	**144**
Other sectors	898	–	13,249	11,424	**25,571**
Total	**436,577**	**226,198**	**179,778**	**931,960**	**1,774,513**

35. Risk management (continued)

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 Group classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses.

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 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 Group's consolidated statement of comprehensive income.

The sensitivity of the statement of comprehensive income 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 2016. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets at 31 December 2016 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.

In thousand Armenian drams	***Increase in basis points 2016***	***Sensitivity of net interest income 2016***	***Sensitivity of equity 2016***
Currency			
AMD	3.7%	(18,448)	(1,174,090)
USD	1%	–	(142,859)

In thousand Armenian drams	***Decrease in basis points 2016***	***Sensitivity of net interest income 2016***	***Sensitivity of equity 2016***
Currency			
AMD	(3.7%)	18,448	1,174,090
USD	(1%)	–	142,859

In thousand Armenian drams	***Increase in basis points 2015***	***Sensitivity of net interest income 2015***	***Sensitivity of equity 2015***
Currency			
AMD	5%	(16,092)	(131,461)
USD	1%	–	(80,656)

In thousand Armenian drams	***Decrease in basis points 2015***	***Sensitivity of net interest income 2015***	***Sensitivity of equity 2015***
Currency			
AMD	(5%)	16,092	131,461
USD	(1%)	–	80,656

35. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities. 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, while a positive amount reflects a net potential increase.

	2016		***2015***	
In thousand Armenian drams	***Change in currency rate in %***	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
Currency				
USD	6%	(34,858)	10%	(117,632)
USD	(6%)	34,858	(10%)	117,632
EUR	11%	377	14%	(17,437)
EUR	(11%)	(377)	(14%)	17,437

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group 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. 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 Group.

The liquidity management of the Group 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 at 31 December, these ratios were as follows:

	Threshold	***2016, %***	***2015, %***
N21 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	39.01	31.06
N22 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	116.23	91.02

35. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted repayment obligations. See Note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	2016					
In thousand Armenian drams	***Demand and less than 1 month***	***From 1 to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Financial liabilities						
Amounts due to banks	205,473	–	–	–	72,591	**278,064**
Derivative liabilities	31,591	–	–	–	–	**31,591**
Amounts due to customers	54,262,156	26,995,968	55,391,082	6,607,702	161,891	**143,418,799**
Other borrowed funds	1,427,262	670,893	703,130	7,137,018	1,302,071	**11,240,374**
Other financial liabilities	402,055	–	–	–	–	**402,055**
Subordinated debt	1,742,795	–	–	–	8,316,020	**10,058,815**
Total undiscounted financial liabilities	**58,071,332**	**27,666,861**	**56,094,212**	**13,744,720**	**9,852,573**	**165,429,698**
Commitments and contingent liabilities	**6,088,226**	**2,253,510**	**2,680,709**	**332,880**	**–**	**11,355,325**

	2015					
In thousand Armenian drams	***Demand and less than 1 month***	***From 1 to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Financial liabilities						
Amounts due to banks	7,352,805	1,317	–	8,437	72,563	**7,435,122**
Derivative liabilities	14,495	–	–	–	–	**14,495**
Amounts due to customers	55,961,773	9,604,329	43,285,690	5,368,615	152,752	**114,373,159**
Other borrowed funds	2,483,486	43,474	899,924	6,796,265	1,660,959	**11,884,108**
Other financial liabilities	344,919	–	–	–	–	**344,919**
Subordinated debt	–	–	–	2,473,537	6,818,875	**9,292,412**
Total undiscounted financial liabilities	**66,157,478**	**9,649,120**	**44,185,614**	**14,646,854**	**8,705,149**	**143,344,215**
Commitments and contingent liabilities	**5,549,315**	**198,583**	**1,166,882**	**295,420**	**–**	**7,210,200**

The maturity analysis does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period "Within one year" in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Armenian legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor.

Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Group. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

35. Risk management (continued)

Operational risk (continued)

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

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

The risk mitigation mechanisms for the process are:

- Regulation of all business processes by internal legal acts;
- Physical protection of the Group’s assets and critical documents (including loan contracts);
- Establishing and maintaining limits;
- Common preservation of property and records;
- Implementation and archiving of data journals;
- Implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Group’s risks and supervises the Group’s activity and operational risks.

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

36. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group’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 Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2016 and 31 December 2015, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2016 and 31 December 2015.

The following table shows the composition of capital position calculated in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2016 and 2015:

In thousand Armenian drams	***2016***	***2015***
Tier 1 capital	24,379,928	14,917,134
Tier 2 capital	10,925,187	9,852,931
Total capital	**35,305,115**	**24,770,065**
Risk-weighted assets	**147,033,555**	**110,163,350**
Capital adequacy ratio	**24.01%**	**22.48%**

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

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