

**“Converse Bank” closed joint stock company**

Consolidated Financial Statements

*31 December 2017*

## Contents

Consolidated statement of financial position.....	3
Consolidated statement of comprehensive income.....	4
Consolidated statement of changes in equity.....	5
Consolidated statement of cash flows .....	6

## Notes to the financial statements

1.Principal activities.....	7
2.Armenian business environment .....	7
Basis of preparation .....	7
4. Critical accounting estimates and judgements.....	19
7. Interest income and expense.....	20
8. Fee and commission income and expense.....	20
9. Net trading income.....	20
10. Other income .....	21
11. Impairment losses .....	21
12. Staff costs .....	21
13. Other expenses.....	21
14. Income tax expense .....	22
15. Cash and cash equivalents .....	23
16. Trading securities .....	23
17. Amounts due from banks.....	24
18. Loans and advances to customers.....	24
19. Investment securities available for sale .....	27
20. Securities pledged under repurchase agreements.....	28
21. Investments held up to maturity.....	28
22. Property, plant and equipment.....	29
23. Intangible assets.....	30
24. Repossessed assets .....	30
26. Amounts due to banks .....	31
27. Derivative financial liabilities.....	32
28. Amounts due to customers.....	32
29. Bonds issued by the Bank.....	32
30. Other borrowed funds.....	33
31. Other liabilities .....	33
32. Subordinated debts .....	34
33. Equity .....	34
34. Contingent liabilities and commitments .....	35
35. Transactions with Related parties .....	37
36. Fair value measurement.....	39
37. Transferred financial assets and assets held or pledged as collateral.....	43
38. Offsetting of financial instruments .....	44
39. Maturity analysis of assets and liabilities .....	44
40. Risk management .....	47
41. Segment information .....	57
42. Capital adequacy .....	59

Consolidated Statement of financial position  
31 December 2017  
Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

In thousand Armenian drams	Notes	31/12/17	31/12/2016 audited
<b>ASSETS</b>			
Cash and cash equivalents	15	39,842,049	44,751,939
Trading securities	16	787,330	184,833
Amounts due from banks	17	10,546,355	2,320,882
Loans and advances to customers	18	165,167,500	119,024,824
Investments available for sale	19	22,812,218	14,929,205
Securities pledged under repurchase agreements	20	3,056,113	0
Held to maturity investments	21	346,140	0
Property, plant and equipment	22	6,115,287	6,384,767
Intangible assets	23	226,538	139,802
Repossessioned assets	24	1,832,119	2,385,649
Prepaid income taxes			
Other assets	25	2,004,204	871,369
<b>Total assets</b>		<b>252,735,853</b>	<b>190,993,270</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to banks	26	15,173,467	278,064
Derivative financial liabilities	27	68,857	31,591
Amounts due to customers	28	173,914,157	139,680,217
Bonds issued by the Bank	29	5,931,969	0
Current income tax liabilities		494,171	175,744
Deferred income tax liabilities	14	1,302,993	1,113,141
Other borrowed funds	30	12,659,350	9,096,208
Other liabilities	31	1,336,872	841,484
Subordinated debt	32	5,854,396	7,598,818
<b>Total liabilities</b>		<b>216,736,232</b>	<b>158,815,267</b>
<b>Equity</b>			
Share capital	33	16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		1,243,064	1,005,996
Other reserves		5,352,858	4,718,327
Retained earnings		12,923,833	9,973,814
<b>Total equity</b>		<b>35,999,621</b>	<b>32,178,003</b>
<b>Total liabilities and equity</b>		<b>252,735,853</b>	<b>190,993,270</b>

Approval date 12.01.18

Chief Executive Officer, Chairman of Executive Management

A. Hakobyan

Chief Accountant

D.Azattyany



**Consolidated Statement of comprehensive income  
for the period ended 31 December 2017**

*(In thousand Armenian drams)*

	Notes	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
Interest income	7	4,899,526	17,624,252	3,636,974	13,859,656
Interest expense	7	(2,178,811)	(8,284,069)	(1,842,451)	(6,787,759)
<b>Net interest income</b>		<b>2,720,715</b>	<b>9,340,183</b>	<b>1,794,523</b>	<b>7,071,897</b>
Fee and commission income	8	683,421	2,433,145	543,025	2,003,640
Fee and commission expense	8	(224,363)	(752,304)	(219,311)	(763,729)
<b>Net fee and commission income</b>		<b>459,058</b>	<b>1,680,841</b>	<b>323,714</b>	<b>1,239,911</b>
Net trading income	9	424,794	1,279,654	519,718	899,056
Net (losses)/gains from foreign currency translation		1,221	(1,128)	(189,369)	(237,214)
Gains less losses on investments available for sale		182,959	304,220	11,084	54,229
Other income	10	242,835	967,294	195,093	943,846
Impairment losses	11	(242,243)	(1,212,874)	(774,801)	(1,544,466)
Staff costs	12	(1,369,896)	(4,298,789)	(885,760)	(3,379,260)
Depreciation of property and equipment	22	(168,683)	(731,100)	(192,192)	(739,362)
Amortization of intangible assets	23	(12,830)	(41,719)	9,961	(76,339)
Other expenses	13	(847,088)	(2,872,067)	(762,486)	(2,723,708)
<b>Profit before income tax</b>		<b>1,390,841</b>	<b>4,414,515</b>	<b>49,485</b>	<b>1,508,590</b>
Income tax expense	14	(245,856)	(788,393)	(251,827)	56,442
<b>Profit for the period</b>		<b>1,144,985</b>	<b>3,626,122</b>	<b>(202,342)</b>	<b>1,565,032</b>
<b>Other comprehensive income:</b>					
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</b>					
Revaluation of property and equipment		-	(61,078)	213,769	<b>213,769</b>
Income tax effect		-	12,010	(42,754)	<b>(42,754)</b>
<b>Net other comprehensive income not be reclassified subsequently to profit or loss</b>		-	(49,068)	171,015	<b>171,015</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>					
Unrealised gains/(losses) on investment securities available-for-sale		555,710	1,312,450	127,153	1,339,201
Realised (gains)/losses on investment securities available-for-sale reclassified to the statement of profit or loss		(182,959)	(304,220)	(11,084)	(54,229)
Income tax effect		(74,550)	(201,646)	(41,377)	(256,994)
<b>Net other comprehensive income to be reclassified subsequently to profit or loss</b>		<b>298,201</b>	<b>806,584</b>	<b>74,692</b>	<b>1,027,978</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>298,201</b>	<b>757,516</b>	<b>245,707</b>	<b>1,198,993</b>
<b>Total comprehensive income for the period</b>		<b>1,443,186</b>	<b>4,383,638</b>	<b>43,365</b>	<b>2,764,025</b>

**Consolidated Statement of changes in equity  
for the period ended 31 December 2017**  
(In thousand Armenian drams)

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
<b>Balance as of January 1, 2016 (audited)</b>	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
Distribution to general reserve							-
Dividends to shareholders						(702,047)	(702,047)
<b>Total Transactions with owners</b>	<b>9,414,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(702,047)</b>	<b>8,712,553</b>
Profit for the period						1,565,032	1,565,032
Other comprehensive income for the period				1,027,978	171,015		1,198,993
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,027,978</b>	<b>171,015</b>	<b>1,565,032</b>	<b>2,764,025</b>
Depreciation of revaluation reserve	-	-	-	-	(134,528)	134,528	-
<b>Balance as of December 31, 2016 (audited)</b>	<b>16,416,633</b>	<b>63,233</b>	<b>1,005,996</b>	<b>1,365,201</b>	<b>3,353,126</b>	<b>9,973,814</b>	<b>32,178,003</b>
<b>Balance as of January 1, 2017 (audited)</b>	<b>16,416,633</b>	<b>63,233</b>	<b>1,005,996</b>	<b>1,365,201</b>	<b>3,353,126</b>	<b>9,973,814</b>	<b>32,178,003</b>
Adjustment of prior periods						2,446	2,446
Issue of share capital							-
Distribution to general reserve			237,068			(237,068)	-
Dividends to shareholders						(564,466)	(564,466)
<b>Total Transactions with owners</b>	<b>-</b>	<b>-</b>	<b>237,068</b>	<b>-</b>	<b>-</b>	<b>(801,534)</b>	<b>(564,466)</b>
Profit for the period						3,626,122	3,626,122
Other comprehensive income for the period				806,584	(49,068)		757,516
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>806,584</b>	<b>(49,068)</b>	<b>3,626,122</b>	<b>4,383,638</b>
Depreciation of revaluation reserve	-	-	-	-	(122,985)	122,985	-
<b>Balance as of December 31, 2017</b>	<b>16,416,633</b>	<b>63,233</b>	<b>1,243,064</b>	<b>2,171,785</b>	<b>3,181,073</b>	<b>12,923,833</b>	<b>35,999,621</b>

**Consolidated Statement of cash flows for the period ended  
31 December 2017  
(In thousand Armenian drams)**

	01/01/2017-31/12/2017	01/01/2016-31/12/2016
<b>Cash flows from operating activities</b>		
Interest received	16,938,024	13,110,944
Interest paid	(8,075,131)	(6,550,012)
Fees and commissions received	2,433,144	2,003,640
Fees and commissions paid	(752,305)	(763,729)
Net trading income received	1,279,655	899,056
Other income received	935,482	943,834
Personnel expenses paid	(4,184,263)	(3,349,030)
Other operating expenses paid	(2,936,783)	(2,615,407)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>5,637,823</b>	<b>3,679,296</b>
<i>Net (increase)/decrease in operating assets</i>		
Trading securities	(948,637)	22,759
Amounts due from banks	(8,296,628)	6,698,218
Loans to customers	(46,439,071)	(38,685,135)
Repossessed assets	553,530	190,557
Other assets	(1,138,876)	(10,347)
<i>Net increase/(decrease) in operating liabilities</i>		
Amounts due to banks	15,513,186	(6,705,878)
Amounts due to customers	41,261,787	27,986,234
Derivative financial liabilities	37,678	17,472
Other liabilities	61,849	61,502
<b>Net cash flows from operating activities before income tax</b>	<b>6,242,640</b>	<b>(6,745,322)</b>
Income tax paid	(318,429)	(41,940)
<b>Net cash from / (used in) operating activities</b>	<b>5,924,211</b>	<b>(6,787,262)</b>
<b>Net cash flow from investing activities</b>		
Purchase of AFS	(14,064,883)	(7,611,181)
Proceeds from sale of AFS securities	8,849,531	3,981,404
Purchase of intangible assets	(34,873)	(29,133)
Purchase of property and equipment	(614,526)	(430,846)
Proceeds from sale of property and equipment	4,198	-
<b>Net cash from / (used in) investing activities</b>	<b>(5,860,554)</b>	<b>(4,089,756)</b>
<b>Net cash flow from financing activities</b>		
Proceeds from issue of share capital	-	9,414,600
Receipts from other borrowed funds	6,069,704	2,154,194
Repayment of other borrowed funds	(9,607,318)	(1,410,854)
Repayment of subordinated loans	(1,453,077)	343,425
Dividends paid to shareholders of the Bank	(564,466)	(702,047)
<b>Net cash from / (used in) financing activities</b>	<b>(5,555,157)</b>	<b>9,799,318</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(5,491,500)</b>	<b>(1,077,700)</b>
Effect of exchange rates changes on cash and cash equivalents	581,610	46,029,188
Cash and cash equivalents, beginning	44,751,939	(199,549)
<b>Cash and cash equivalents, ending</b>	<b>39,842,049</b>	<b>44,751,939</b>

## 1.Principal activities

“Converse Bank” CJSC (the “Bank”) is the parent company of the Group, which is comprised of the Bank and its subsidiary (the “Group”).

“Converse Bank” CJSC 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 November 28, 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 31 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 largest shareholder of the Group (80.94%-of shares) as of June 30 2017

The second largest shareholder is the HAYPOST TRUST MANAGEMENT CJSC ARMENIAN BRANCH (14.06%-of shares).

And another shareholder is the MOTHER SEE OF HOLY ETCHMIADZIN (5%-of shares).

The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

As of 31.12.17 710 employees were hired by the parent company and 26 by it’s subsidiary.

The consolidated financial statements include the following subsidiary:

<i>Subsidiary</i>	<i>Ownership %</i>			<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>
	<i>2015</i>	<i>2016</i>	<i>2017</i>			
“Converse Collection” LLC	100 %	100 %	100 %	Armenia	April 20, 2000	Transportation of cash, cash equivalents and other assets

## 2.Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

Deterioration of economic situation of countries collaborating with the RA led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Group. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Group may be affected.

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

### 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 revaluated amount.

## **Basis of preparation (continued)**

### **Basis of measurement (continued)**

#### *Going Concern*

On 30 December 2014, the Central Bank of Armenia changed the requirement on minimum regulatory capital for local banks from AMD 5,000,000 thousand to AMD 30,000,000 thousand, effective from 1 January 2017.

As at 31 December 2017, the regulatory capital of the Bank amounted to AMD 36,029,592 thousand (2016: AMD 32,078,097 thousand).

### **Functional and presentation currency**

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Group's functional currency and the Group's 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.

### **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 preparation (continued)**

### **Changes in 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.

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

### **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.

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.

### **3.Summary of accounting policies (continued)**

#### **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 2017 and 31 December 2016 were AMD 484.1 and AMD 483.94 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.

### **3. Summary of significant accounting policies (continued)**

#### **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.

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 Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

#### *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.

## **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.

## **Summary of significant accounting policies (continued)**

### **Property, plant and equipment (continued)**

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

	<i>Useful life (years)</i>	<i>Rate (%)</i>
Buildings	20	5
Computers	1	100
Vehicles	5	20
Equipment	5	20
Other fixed assets	5	20

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

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

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

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

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the 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.

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.

### **3.Summary of accounting policies (continued)**

#### **Reposessed assets**

In certain circumstances, assets are reposessed following the foreclosure on loans that are in default. Reposessed 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.

## **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*

Include retained earnings of current and previous periods.

### *Dividends*

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

## **Summary of significant accounting policies (continued)**

### **Equity (continued)**

#### *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.

#### **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 financial statements are presented below:

##### *Measurement of fair values*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 34).

##### *Classification of investment securities*

Securities owned by the Group comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and 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 financial assets 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.

## 7. Interest income and expense

<i>In thousand Armenian drams</i>	<b>01/10/17- 31/12/17</b>	<b>01/01/17- 31/12/17</b>	<b>01/10/16- 31/12/16</b>	<b>01/01/16- 31/12/16</b>
Loans and advances to customers	4,282,918	15,608,153	3,292,673	12,246,697
Debt securities available-for-sale	540,441	1,867,749	323,427	1,206,517
Amounts due from banks	44,494	109,410	19,997	400,785
Held to maturity investments	21,458	21,458	-	-
Other interest income	10,213	17,482	875	5,657
<b>Total interest income</b>	<b>4,899,526</b>	<b>17,624,252</b>	<b>3,636,974</b>	<b>13,859,656</b>
Amounts due to customers	1,600,402	6,562,643	1,468,134	5,388,906
Other borrowed funds	189,236	743,889	173,545	792,726
Subordinated loans	104,444	404,862	120,431	473,964
Amounts due to banks	195,191	398,837	80,341	132,163
Bonds issued by the Bank	89,538	173,838	-	-
<b>Total interest expense</b>	<b>2,178,811</b>	<b>8,284,069</b>	<b>1,842,451</b>	<b>6,787,759</b>

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the period ended 31 December 2017, comprised AMD 155,751 thousand (2016: AMD 125,489 thousand).

## 8. Fee and commission income and expense

<i>In thousand Armenian drams</i>	<b>01/10/17- 31/12/17</b>	<b>01/01/17- 31/12/17</b>	<b>01/10/16- 31/12/16</b>	<b>01/01/16- 31/12/16</b>
Plastic cards operations	264,142	947,367	216,226	840,209
Wire transfer fees	241,022	722,044	157,451	567,315
Settlement operation	84,259	318,573	74,747	218,385
Fees and commission income from loans	21,783	168,542	27,893	109,329
Guarantees and letters of credit	17,077	43,690	16,299	53,268
Other	55,136	232,929	50,409	215,134
<b>Total fee and commission income</b>	<b>683,421</b>	<b>2,433,145</b>	<b>543,025</b>	<b>2,003,640</b>
Plastic cards operations	164,325	526,130	124,146	468,958
Settlement operations	16,159	84,079	63,005	171,014
Wire transfer fees	30,805	101,166	25,034	94,081
Guarantees and letters of credit	797	5,015	-	681
Other expenses	12,277	35,914	7,126	28,995
<b>Total fee and commission expense</b>	<b>224,363</b>	<b>752,304</b>	<b>219,311</b>	<b>763,729</b>

## 9. Net trading income

<i>In thousand Armenian drams</i>	<b>01/10/17- 31/12/17</b>	<b>01/01/17- 31/12/17</b>	<b>01/10/16- 31/12/16</b>	<b>01/01/16- 31/12/16</b>
Net gains from foreign currency transactions	375,492	1,387,360	462,502	1,634,306
Net gain/(loss) from trading securities	22,861	45,861	13	36,940
Net gain/(loss) on financial instruments at fair value through profit or loss	26,439	(153,567)	57,203	(772,190)
<b>Total net trading income</b>	<b>424,794</b>	<b>1,279,654</b>	<b>519,718</b>	<b>899,056</b>

#### 10. Other income

<i>In thousand Armenian drams</i>	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
Fines and penalties received	134,015	589,407	190,134	781,173
Net income from operations with precious metals	27,180	110,193	(28,054)	5,759
Income from grants	606	2,424	606	2,424
Income from sale of fixed assets	(9,984)	(17,164)	-	330
Dividend income	1,374	4,127	1,263	4,469
Income from cash collection services	9,286	31,812	8,261	33,489
Other income	80,360	246,495	22,883	116,202
<b>Total other income</b>	<b>242,835</b>	<b>967,294</b>	<b>195,093</b>	<b>943,846</b>

#### 11. Impairment losses

<i>In thousand Armenian drams</i>	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
Loans and advances to customers (Note 18)	239,327	1,146,313	806,740	1,559,419
Other assets (Note 24)	2,918	66,561	(31,938)	(14,953)
<b>Total impairment charge</b>	<b>242,243</b>	<b>1,212,874</b>	<b>774,801</b>	<b>1,544,466</b>

#### 12. Staff costs

<i>In thousand Armenian drams</i>	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
Salaries	1,349,753	4,250,933	874,519	3,346,119
Other expenses	20,143	47,856	11,241	33,141
<b>Total staff costs</b>	<b>1,369,896</b>	<b>4,298,789</b>	<b>885,760</b>	<b>3,379,260</b>

#### 13. Other expenses

<i>In thousand Armenian drams</i>	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
Fixed assets maintenance	41,287	125,906	32,558	103,687
Consulting and other services	21,601	72,333	14,911	103,599
Operating lease	21,601	72,333	14,911	103,599
Taxes, other than income tax, duties	11,633	35,006	8,544	30,587
Advertising costs	89,167	315,430	56,347	382,922
Insurance expenses	29,648	100,583	29,664	92,605
Loss from revaluation of fixed assets	-	-	7,738	7,738
Loss from impairment of confiscated property	58,078	58,078	100,563	100,563
Communications	35,034	133,030	35,562	129,409
Security	55,993	205,518	47,126	191,309
Insurance of deposits	55,850	231,003	44,602	137,746
Office supplies	3,698	40,745	5,076	47,084
Business trip expenses	8,822	24,020	4,559	18,417
Armenian Software expenses	47,749	182,661	43,660	168,840
Expenses related to ARCA	48,719	174,557	71,975	150,881
Penalties paid	207	3,891	2,000	4,865
Other expenses	210,871	661,505	138,011	577,244

<i>In thousand Armenian drams</i>	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
<b>Total other expenses</b>	<b>847,088</b>	<b>2,872,067</b>	<b>762,486</b>	<b>2,723,708</b>

#### 14. Income tax expense

<i>In thousand Armenian drams</i>	01/10/17- 31/12/17	01/01/17- 31/12/17	01/10/16- 31/12/16	01/01/16- 31/12/16
Current tax expense	244,558	788,176	282,236	374,398
Adjustments of current income tax of previous years	-	-	-	-
Deferred tax expense/ (benefit)	1,298	217	(30,411)	(430,840)
<b>Total income tax expense</b>	<b>245,856</b>	<b>788,393</b>	<b>251,827</b>	<b>(56,442)</b>

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

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

<i>In thousand Armenian drams</i>	31/12/17	31/12/16
<b>Profit before tax</b>	<b>4,414,515</b>	<b>1,508,590</b>
Income tax (benefit)/expense at the rate of 20%	<b>882,903</b>	<b>301,718</b>
Non-taxable income	138,458	
Non-deductible expenses	(252,420)	149,362
Foreign exchange losses	19,451	0
Adjustment of current income tax of previous years	0	(35,072)
Deferred tax assets recognized due to increase of estimated tax base of PPE in 2016		(472,450)
<b>Income tax expense</b>	<b>788,393</b>	<b>(56,442)</b>

Deferred tax calculation in respect of temporary differences:

<i>In thousand Armenian drams</i>	<i>As of December 31, 2016</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehensive income</i>	<i>As of December 31, 2017</i>
Repossesses assets	39,209			39,209
Other assets	27,190	(31,270)		(4,080)
Other liabilities	41,163	-		41,163
<b>Total deferred tax assets</b>	<b>107,562</b>	<b>(31,270)</b>	<b>-</b>	<b>76,292</b>
Securities available for sale	(337,476)	-	(201,646)	(539,122)
Loans and advances to customers	(626,276)	51		(626,255)
Property, plant and equipment	(255,144)	31,002	12,010	(212,131)
Liabilities to customers	(1,807)			(1,807)
<b>Total deferred tax liability</b>	<b>(1,220,703)</b>	<b>31,054</b>	<b>(189,636)</b>	<b>(1,379,285)</b>
<b>Net deferred tax liability</b>	<b>(1,113,141)</b>	<b>(217)</b>	<b>(189,636)</b>	<b>(1,302,993)</b>

14. Income tax expense (continued)

<i>In thousand Armenian drams</i>	<i>As of December 31, 2015</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehensive income</i>	<i>As of December 31, 2016</i>
Repossesses assets	19,096	20113	0	39,209
Other assets	6,254	20,936	0	27,190
Other liabilities	35,556	5,607	0	41,163
<b>Total deferred tax assets</b>	<b>60,906</b>	<b>46,656</b>	<b>0</b>	<b>107,562</b>
Securities available for sale	(80,482)	–	(256,994)	(337,476)
Loans and advances to customers	(504,846)	(121,430)	–	(626,276)
Property, plant and equipment	(719,730)	507,340	(42,754)	(255,144)
Liabilities to customers	(79)	(1,728)		(1,807)
<b>Total deferred tax liability</b>	<b>(1,305,137)</b>	<b>384,182</b>	<b>(299,748)</b>	<b>(1,220,703)</b>
<b>Net deferred tax liability</b>	<b>(1,244,231)</b>	<b>430,838</b>	<b>(299,748)</b>	<b>(1,113,141)</b>

15. Cash and cash equivalents

<i>In thousand Armenian drams</i>	<i>31/12/2017</i>	<i>31/12/2016</i>
Cash on hand	8,802,423	10,895,951
Correspondent accounts with the CBA	29,005,963	32,812,539
Placements with other banks	2,033,663	1,043,449
<b>Total cash and cash equivalents</b>	<b>39,842,049</b>	<b>44,751,939</b>

As of 31 December 2017 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 18% of certain obligations of the Group, denominated in foreign currency and amounts to AMD 22,573,220 thousand (2016: AMD 20,038,884 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 December 2017 placements with other banks in the amount of AMD 1,716,360 thousand (84.4%) were due from three banks (2016: AMD 926,842 thousand (88.8%) were due from three banks).

16. Trading securities

<i>In thousand Armenian drams</i>	<i>31/12/2017</i>	<i>31/12/2016</i>
Debt securities issued by the RA government	787,330	139,594
RA corporate bonds	–	45,239
<b>Total trading securities</b>	<b>787,330</b>	<b>184,833</b>

16. Trading securities (continued)

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

<i>31/12/2017</i>	<i>31/12/2016</i>
-------------------	-------------------

	%	Maturity	%	Maturity
Debt securities issued by the RA government	8.00-13.00	2020-2036	10.0-12.0	2018-2023
RA corporate bonds			15	2018

As at 31 December 2017 there were no Trading securities pledged to third parties in sale and repurchase agreements (2016: 0 AMD). These securities are reclassified as securities pledged under repurchase agreements in the consolidated statement of financial positions (Note 20).

#### 17. Amounts due from banks

In thousand Armenian drams	31/12/2017	31/12/2016
Deposited funds with CBA	920,000	720,000
Loans and deposits to banks	753,858	4,006
Reverse repurchase agreements	7,025,413	
Receivables from payment and settlement operations	1,194,907	1,039,310
Other	652,177	557,566
<b>Total amounts due from banks</b>	<b>10,546,355</b>	<b>2,320,882</b>

#### 18. Loans and advances to customers

In thousand Armenian drams	31/12/2017	31/12/2016
Loans to customers	139,239,113	106,201,760
Overdrafts	25,558,298	15,672,505
Repo agreements	4,820,511	1,373,788
Factoring	95,247	33,629
Letter of credit	1,525	1,131
Financial lease receivables	316,157	296,207
<b>Less allowance for loan impairment</b>	<b>(4,863,351)</b>	<b>(4,554,196))</b>
<b>Total loans and advances to customers</b>	<b>165,167,500</b>	<b>119,024,824</b>

As of 31 December 2017 the Bank had a concentration of loans totalling to AMD 48,622,782 thousand due from the ten largest groups of borrowers (28.60% of gross loan portfolio) (2016: AMD 49,226,623 thousand or 40% of gross loan portfolio). An allowance for impairment in the amount of AMD 1,251,130 thousand (2016: AMD 1,184,887 thousand) was created against these loans.

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

In thousand Armenian drams	31/12/2017	31/12/2016
Consumer loans to individuals	43,142,026	31,428,298
Mortgage	28,612,851	20,706,198
Trading	23,146,110	16,181,097
Energy	7,699,389	4,961,672
Other	23,114,263	9,856,170
Construction	6,100,246	5,148,382
Transport and communication	17,701,025	18,626,511

*In thousand Armenian drams*

	<b>31/12/2017</b>	<b>31/12/2016</b>
Consumer loans to individuals	43,142,026	31,428,298
Agriculture (including loans to individuals)	7,012,168	4,621,160
Manufacturing	6,362,891	3,815,017
Services	7,139,882	8,234,515
	<b>170,030,851</b>	<b>123,579,020</b>
<i>Less allowance for loan impairment</i>	(4,863,351)	(4,554,196)
<b>Total loans and advances to customers</b>	<b>165,167,500</b>	<b>119,024,824</b>

**18. Loans and advances to customers (continued)**

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

*In thousand  
Armenian drams*

Armenian drams											31/12/2017
	Manufac- turing	Energy	Agriculture (including loans to individuals)	Construc- tion	Trading	Transport and communi- cations	Services	Consumer loans to individuals	Mortgage	Other	Total
At 1 January 2017	547,956	44,656	734,327	708,490	417,923	220,099	121,723	676,991	1,045,123	36,908	4,554,196
Charge/(reversal) for the period	30,820	24,642	197,989	87,277	232,288	23,419	25,224	218,658	174,485	131,513	1,146,313
Amounts written off	(9,747)		(110,432)	(90,418)	(207,695)		(136,936)	(1,190,886)	(436,710)	(46,258)	(2,229,081)
Recoveries	19,853		19,391	26,457	65,571	9,155	54,395	779,854	393,393	23,854	1,391,924
At 31 December 2017	588,882	69,298	841,275	731,805	508,087	252,673	64,406	484,618	1,176,291	146,017	4,863,353
Individual impairment	540,538	-	792,508	708,705	344,399	240,206	449	38,299	917,763	13,824	3,596,691
Collective impairment	48,345	69,298	48,767	23,100	163,688	12,467	63,957	446,318	258,528	132,193	1,266,662
	588,882	69,298	841,275	731,805	508,087	252,673	64,406	484,618	1,176,291	146,017	4,863,351
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,049,708	-	1,010,942	1,109,030	1,217,724	479,853	49,890	277,870	1,790,319	268,619	7,253,956

	<i>Manufac- turing</i>	<i>Energ- y</i>	<i>Agriculture (including loans to individuals)</i>	<i>Construc- tion</i>	<i>Trading</i>	<i>Transport and communi- cations</i>	<i>Services</i>	<i>Consumer loans to individuals</i>	<i>Mortgage</i>	<i>Other</i>	<i>Total</i>
<b>At 1 January 2016</b>	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
<b>At 31 December 2016</b>	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

## 18. Loans and advances to customers (continued)

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

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Individuals	72,186,041	52,380,175
Privately held companies	90,043,273	66,469,244
State owned enterprises	960,399	701,676
Sole proprietors	6,839,679	4,025,289
Non-commercial institutions	1,459	2,636
	<b>170,030,851</b>	<b>123,579,020</b>
<b>Less allowance for loan impairment</b>	(4,863,351)	(4,554,196)
<b>Total loans and advances to customers</b>	<b>165,167,500</b>	<b>119,024,824</b>

Loans to individuals comprise the following products:

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Mortgage loans	28,612,851	20,706,198
Credit card loans	20,278,945	15,524,600
Gold loans	7,419,891	6,593,907
Consumer loans	15,142,797	8,969,962
Car loans	300,393	339,898
Agriculture	391,985	243,646
Other	39,179	1,963
<b>Total loans and advances to individuals (gross)</b>	<b>72,186,041</b>	<b>52,380,174</b>

The finance lease receivables represent:

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
<b>Gross investment in finance lease, receivable:</b>		
Not later than 1 year	13,487	-
1-5 years	326,747	346,768
	<b>340,234</b>	<b>346,768</b>
Unearned future finance income on finance lease	(24,077)	(50,561)
<b>Net investment in financial lease, before impairment allowance</b>	<b>316,157</b>	<b>296,207</b>
Impairment allowance	(357,432)	(181,184)
<b>Net investment in finance lease</b>	<b>(41,275)</b>	<b>115,023</b>

The estimated fair value of loans and advances to customers as of 31 December 2017 and 31 December 2016 are disclosed in Note 36.

Maturity analysis of loans and advances to customers are disclosed in Note 39.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 40. The information on related party balances is disclosed in Note 35.

#### 19. Investment securities available for sale

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Government bonds	18,518,365	13,133,887
Equity shares of OECD countries	888,409	616,646
RA corporate bonds	2,645,006	810,726
Investments in funds	579,582	310,152
Corporate bonds of OECD countries	123,062	0
RA corporate equity shares	57,794	57,794
<b>Total investment securities available for sale</b>	<b>22,812,218</b>	<b>14,929,205</b>

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:

<i>In thousand Armenian drams</i>	<b>31/12/2017</b>		<b>31/12/2016</b>	
	%	Maturity	%	Maturity
Government bonds	4.76-18.35	2018-2047	4.76-18.35	2017-2036
RA corporate bonds	5.83-12.63	2018-2022	6.46-12.34	2017-2019

As at 31 December 2017 there were no investments available for sale included RA government bonds pledged under repurchase agreements with CB of RA, with the right to sell or re-pledge by the counterparty 3,056,113 AMD (2016: AMD 0). These securities are reclassified as securities pledged under repurchase agreements in the consolidated statement of financial positions (Note 20).

## 20. Securities pledged under repurchase agreements

<i>In thousand Armenian drams</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Trading securities (Note 16)	-	-
Investment securities (Note 19)	3,056,113	-
<b>Total</b>	<b>3,056,113</b>	<b>-</b>

The pledged securities are those financial assets pledged under repurchase agreements with CB of RA, with the right to sell or re-pledge by the counterparty. All contracts have 1 month maturity.

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

## 21. Held to maturity investments

<i>In thousand Armenian drams</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Government bonds	346,140	
RA corporate bonds	-	
<b>Total held to maturity investments</b>	<b>346,140</b>	

Held to maturity investments by effective interest rates and maturity date comprise:

	<b>31/12/2017</b>		<b>31/12/2016</b>	
	%	Maturity	%	Maturity
Government bonds	0.00	2018		

## 22. Property, plant and equipment

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Equipment</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Other fixed assets</i>	<i>Leasehold improve- ments</i>	<i>Total</i>
<b>Revalued amount or cost</b>							
<b>As of January 1, 2016</b>	<b>5,361,547</b>	<b>732,794</b>	<b>208,357</b>	<b>2,656,802</b>	<b>719,264</b>	<b>956,474</b>	<b>10,635,238</b>
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)	0	0	0	0	0	(191,209)
Transfer between categories	0	0	0	0	0	0	0
<b>As of December 31, 2016</b>	<b>5,134,018</b>	<b>753,258</b>	<b>208,627</b>	<b>2,936,691</b>	<b>741,403</b>	<b>965,437</b>	<b>10,739,434</b>
Additions	103	31,317	6,025	410,824	68,455	99,883	616,607
Disposals	0	(33,269)	(4,000)	(34,391)	(35,940)	(42,355)	(149,955)
Adjustments	(156,025)	0	0	3,577	10,737	78,143	(63,569)
Effect of revaluation	(61,078)	-	-	-	-	-	(61,078)
Transfer between categories	-	(106)	-	106	28,836	(28,836)	-
<b>As of December 31, 2017</b>	<b>4,917,018</b>	<b>751,200</b>	<b>210,652</b>	<b>3,316,807</b>	<b>813,491</b>	<b>1,072,272</b>	<b>11,081,439</b>
<b>Accumulated depreciation</b>							
<b>As of January 1, 2016</b>	<b>128,895</b>	<b>495,274</b>	<b>145,820</b>	<b>1,851,926</b>	<b>483,906</b>	<b>326,671</b>	<b>3,432,492</b>
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)	0	0	0	0	0	(397,240)
Transfer between categories	0	0	0	0	0	0	0
<b>As of December 31, 2016</b>	<b>–</b>	<b>634,109</b>	<b>193,354</b>	<b>2,370,101</b>	<b>601,374</b>	<b>555,729</b>	<b>4,354,667</b>
Depreciation charge	197,005	58,625	12,935	285,869	67,782	108,884	731,100
Adjustments	(3,027)	-	-	1,947	5,078	21,830	25,829
Disposals	-	(33,268)	(222)	(34,200)	(33,986)	(42,576)	(144,252)
Effect of revaluation	(1190)	0	0	0	0	0	(1,190)
Transfer between categories	-	(103)	-	103	7,772	(7,772)	0
<b>As of December 31, 2017</b>	<b>192,788</b>	<b>659,363</b>	<b>206,067</b>	<b>2,623,820</b>	<b>648,020</b>	<b>636,095</b>	<b>4,966,154</b>
<b>Carrying value</b>							
<b>As of January 1, 2016</b>	<b>5,150,882</b>	<b>165,613</b>	<b>38,782</b>	<b>556,699</b>	<b>174,715</b>	<b>525,769</b>	<b>6,612,460</b>
<b>As of December 31, 2016</b>	<b>5,134,018</b>	<b>119,149</b>	<b>15,273</b>	<b>566,590</b>	<b>140,029</b>	<b>409,708</b>	<b>6,384,767</b>
<b>As of December 31, 2017</b>	<b>4,724,230</b>	<b>91,837</b>	<b>4,585</b>	<b>692,987</b>	<b>165,471</b>	<b>436,177</b>	<b>6,115,287</b>

### 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 737,210 thousand as of 31 December 2017 (2016: AMD 931,932 thousand).

### Fully depreciated items

As of 31 December 2017 property, plant and equipment included fully depreciated assets in amount of AMD 2,728,548 thousand (2016: 2,200,044 thousand).

***Property, plant and equipment in the phase of installation***

As of 31 December 2017 property, plant and equipment included assets in the phase of installation in amount of AMD 139,069 thousand (2016: AMD 139,395 thousand).

***Restrictions on title of property, plant and equipment***

As of 31 December 2017 and 31 December 2016, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

**23. Intangible assets**

<i>In thousand Armenian drams</i>	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
<b>Initial value</b>				
As of January 1, 2016	669,272	60,366	67,315	796,953
Additions	16,014	1,200	11,919	29,133
As of December 31, 2016	685,286	61,566	79,234	826,086
	11,361	-	93,600	104,961
<b>Additions</b>				
Transfer between categories	18,244	5,250	-	23,494
As of December 31, 2017	714,891	66,816	172,834	954,541
<b>Accumulated amortisation</b>				
As of January 1, 2016	539,380	37,469	33,096	609,945
Amortisation charge	62,230	4,001	10,108	76,339
As of December 31, 2016	601,610	41,470	43,204	686,284
	31,426	2,998	7,295	41,719
As of December 31, 2017	633,036	44,468	50,499	728,003
<b>Balance value</b>				
As of January 1, 2016	129,892	22,897	34,219	187,008
As of December 31, 2016	83,676	20,096	36,030	139,802
As of December 31, 2017	81,855	22,348	122,335	226,538

***Fully amortized items***

As of 31 December 2017, intangible assets included fully amortized assets in amount of AMD 454,122 thousand (2016: AMD 441,977 thousand).

As of 31 December 2017 and 31 December 2016, the Group does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

**24. Repossessed assets**

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

<i>In thousand Armenian drams</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Property	1,807,659	2,353,995
Vehicles	11,000	17,000
Other	13,460	14,654
<b>Total</b>	<b>1,832,119</b>	<b>2,385,649</b>

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Property	1,807,659	2,353,995
Vehicles	11,000	17,000

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.

## 25. Other assets

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Receivables	416,024	325,777
Receivables on cash transfers	7,004	14,116
<b>Total other financial assets</b>	<b>423,028</b>	<b>339,893</b>
Less allowance for impairment of financial assets	(43,421)	(59,174)
<b>Total net other financial assets</b>	<b>379,607</b>	<b>280,719</b>
Precious metals	444,766	205,035
Materials	239,255	223,816
Prepayments to suppliers	550,583	88,803
Unamortized insurance premium	44,994	29,479
Other prepaid taxes	342,867	40,006
Settlements with employees	267	1,645
Other	1,865	1,865
<b>Total non-financial assets</b>	<b>1,624,597</b>	<b>590,649</b>
<b>Total other assets</b>	<b>2,004,204</b>	<b>871,369</b>

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

*In thousand Armenian drams*

	<i>Total</i>
<b>As of January 1, 2016</b>	<b>45,203</b>
Charge for the period	36,567
Amounts written off	(22,596)
<b>As of December 31, 2016</b>	<b>59,174</b>
Charge for the period	66,561
Amounts written off	(82,308)
<b>As of December 31, 2017</b>	<b>43,421</b>

## 26. Amounts due to banks

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Repurchase agreements with CBA	0	0
Repurchase agreements with banks	2,900,619	0
Loans from banks	12,004,512	0
Correspondent accounts of other banks	143,170	224,626
Other liabilities	125,166	53,438
<b>Total amounts due to banks</b>	<b>15,173,467</b>	<b>278,064</b>

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Repurchase agreements with CBA	0	0
Repurchase agreements with banks	2,900,619	0
Loans from banks	12,004,512	0
Correspondent accounts of other banks	143,170	224,626
Other liabilities	125,166	53,438
<b>Total amounts due to banks</b>	<b>15,173,467</b>	<b>278,064</b>

The group has no received loans from banks as of 31 December 2017 (2016: 0 AMD).

The bank has repurchase agreement liabilities to only one bank as of 31 December 2017 (2016: 0 AMD)

As of 31 December 2017 85.89 % of correspondent accounts of other banks are concentrated within 2 counterparties (2016: 57.6%).

## 27. Derivative financial liabilities

<i>In thousand Armenian drams</i>	31/12/2017			31/12/2016		
	<i>Notional amount</i>	<i>Fair value of assets</i>	<i>Fair value of liabilities</i>	<i>Notional amount</i>	<i>Fair value of assets</i>	<i>Fair value of liabilities</i>
<b>Derivatives held for trading</b>						
Swaps – foreign currency	7,628,876	–	68,857	3,396,500	–	31,591
<b>Total derivative financial instruments</b>	<b>7,628,876</b>	<b>–</b>	<b>68,857</b>	<b>3,396,500</b>	<b>–</b>	<b>31,591</b>

## 28. Amounts due to customers

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
<b>Corporate customers</b>	<b>96,613,250</b>	<b>68,643,805</b>
Current/Settlement accounts	52,015,402	33,450,564
Time deposits	44,597,848	35,193,241
<b>Retail customers</b>	<b>77,300,907</b>	<b>71,036,412</b>
Current/Settlement accounts	25,353,490	21,002,322
Time deposits	51,947,417	50,034,090
<b>Total amounts due to customers</b>	<b>173,914,157</b>	<b>139,680,217</b>

As of 31 December 2017 included in amounts due to customers are deposits amounting to AMD 33,078,968 thousand (2016: AMD 31,826,259 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 of 31 December 2017 the aggregate balance of top ten customers of the Group amounts to AMD 78,683,050 thousand (2016: AMD 65,612,790 thousand) or 45.24 % of total customer accounts (2016: 46.9%).

## 29. Bonds issued by the Bank

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Bonds issued by the Bank	5,931,969	0
<b>Total issued bonds</b>	<b>5,931,969</b>	<b>0</b>

During the second quarter of 2017 the Bank issued USD denominated bonds with nominal amount of USD 6,000,000 in Armenia with maturity in the 2<sup>nd</sup> quarter 2019. During the third quarter of 2017 the Bank allocated 100,000 AMD bonds with nominal amount of AMD 1,000,000,000 in Armenia with maturity in 3<sup>rd</sup> quarter 2019. In the 4<sup>th</sup> quarter of 2017 the Bank allocated 40,000 USD bonds with nominal amount of USD 4,000,000.

As at 31 December 2017 carrying value of the bonds is AMD 5,931,969 thousand.

Bonds issued by the Bank are listed in Nasdaq OMX Armenia stock exchange.

### 30. Other borrowed funds

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Loans from CBA	5,117,959	3,977,980
Loans from other financial institution	6,216,391	3,762,757
Loans from international financial institution	1,271,923	1,331,482
Loans from Government of the RA	53,077	23,989
<b>Total other borrowed funds</b>	<b>12,659,350</b>	<b>9,096,208</b>

As of 31 December 2017 Loan 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.

### 31. Other liabilities

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Accounts payables	343,221	205,996
Due to personnel	600,445	193,719
<b>Total other financial liabilities</b>	<b>943,666</b>	<b>399,715</b>
Tax payable, other than income tax	360,502	404,649
Grants related to assets	26,010	28,432
Other	6,694	8,688
<b>Total other non-financial liabilities</b>	<b>393,206</b>	<b>441,769</b>
<b>Total other liabilities</b>	<b>1,336,872</b>	<b>841,484</b>

*In thousand Armenian drams*

	31/12/2017	31/12/2016
At January 1, 2017	28,432	30,854
Recognition of income (Note 10)	(2,424)	(2,424)

*In thousand Armenian drams*

	31/12/2017	31/12/2016
At January 1, 2017	28,432	30,854
<b>As of December 31, 2017</b>	<b>26,010</b>	<b>28,432</b>

### 32. Subordinated debts

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Subordinated debt provided by related party	5,854,396	7,598,818
	<b>5,854,396</b>	<b>7,598,818</b>

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 7.12% per annum and with contractual maturity from January 2023 (2016: 6.87%% and with contractual maturity from January 2017 to February 2023) (See note 35).

### 33. Equity

As of 31 December 2017 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2016: AMD 7,002,033 thousand).

In accordance with the Bank's statutes, 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.

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

<i>In thousand Armenian drams</i>	31/12/2017		31/12/2016	
	<i>Paid-in share capital</i>	<i>% of total paid-in capital</i>	<i>Paid-in share capital</i>	<i>% of total paid-in capital</i>
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
Haypost Trust Managment CJSC	2,307,900	14.06	2,307,900	14.06
Saint Apostolic Church of Armenia	820,800	5	820,800	5
	<b>16,416,633</b>	<b>100</b>	<b>16,416,633</b>	<b>100</b>

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.

According to decision of Meeting of Shareholders dated on 19 June 2017 dividends declared by the Bank amounted to AMD 564,460 thousand (2016 declared and paid AMD 702,040 thousand) for ordinary shares and 6.6 thousand (2016

AMD 6.6 thousand) to preferred shareholders. As of the date the dividends were declared dividends per ordinary share amounted to AMD 10,315 (2016 AMD 12,829), and dividends per preference share amounted to AMD 19.8 (2016 AMD 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 that provide for the creation of a reserve for these purposes of not less than 20% of the Bank's share capital reported in statutory books.

### 34. 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 of 31 December 2017 the nominal or contract amounts were:

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Undrawn loan commitments	10,248,879	6,051,046
Letters of credit	58,010	1,787,858
Guarantees	3,232,716	3,516,421
Reserves against credit related commitments	–	–
<b>Total commitments and contingent liabilities</b>	<b>13,539,605</b>	<b>11,355,325</b>

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 other lease agreements for buildings and premises. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

*In thousand Armenian drams*

	31/12/2017	31/12/2016
Not later than 1 year	579,847	461,494
1 - 5 years	1,952,989	1,320,226
Later than 5 years	2,398,534	566,280
<b>Total operating lease commitments</b>	<b>4,931,370</b>	<b>2,348,000</b>

#### *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 2017 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.

### **35. 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, 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.

	31/12/2017			31/12/2016		
	<i>Parent Company</i>	<i>Shareholders and parties related with them</i>	<i>Key management personnel and parties related with them</i>	<i>Parent Company</i>	<i>Shareholders and parties related with them</i>	<i>Key management personnel and parties related with them</i>
<i>In thousand Armenian Drams</i>						
<b>Consolidated Statement of financial position</b>						
<b>Loans and advances to customers</b>						
Loans outstanding at January 1, gross	4,811	28,951,581	177,661	12,874	4,150,912	244,030
Loans issued during the period	92,282	26,764,742	1,041,835	98,578	55,366,239	544,808
Loan repayments during the period	(78,056)	(27,666,376)	(829,619)	(106,641)	(30,565,570)	(611,177)
<b>Loans outstanding at the end of period, gross</b>	<b>19,037</b>	<b>28,049,947</b>	<b>389,877</b>	<b>4,811</b>	<b>28,951,581</b>	<b>177,661</b>
Less: allowance for loan impairment	(190)	(280,499)	(3,899)	(48)	(289,516)	(1,777)
<b>Loans outstanding at the end of period</b>	<b>18,847</b>	<b>27,769,448</b>	<b>385,978</b>	<b>4,763</b>	<b>28,662,065</b>	<b>175,884</b>
<b>Amounts due to customers</b>						
Deposits at January 1	348,105	38,802,129	167,545	114,430	28,014,157	100,227
Deposits received during the period	1,022,935	623,622,329	4,088,473	14,857,283	675,611,740	3,300,673
Deposits repaid during the period	(1,003,421)	(619,128,160)	(3,841,823)	(14,623,608)	(664,823,768)	(3,233,355)
<b>Deposits at the end of period</b>	<b>367,619</b>	<b>43,296,298</b>	<b>414,195</b>	<b>348,105</b>	<b>38,802,129</b>	<b>167,545</b>
<b>Amounts due to customers - Subordinated debt</b>						
Subordinated debt at January 1	-	7,598,818	-	-	7,430,709	-
Subordinated debt received during the period	-	-	-	-	338,758	-
Subordinated debt repaid during the period	-	(1,741,114)	-	-	-	-
Net result from FX revaluation	-	(3,309)	-	-	(170,649)	-
<b>Subordinated debt at the end of period</b>	<b>-</b>	<b>5,854,395</b>	<b>-</b>	<b>-</b>	<b>7,598,818</b>	<b>-</b>
<b>Consolidated statement of comprehensive income</b>						
Interest income	-	2,238,266	13,700	-	1,198,588	15,493
Fee and commission income	702	24,965	660	431	19,576	784
Other income	1,300	61,287	910	2,190	105,412	1,362
Interest expense	(3,771)	(1,880,344)	(15,985)	(18,641)	(1,417,551)	(9,382)
Impairment charge	(142)	9,016	(2,122)	81	(248,007)	663
Other operating expenses	-	(43,109)	(28,601)	(8,660)	(51,908)	(29,465)

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:

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 year to 20 years (2016: from 1 year to 20 years) and have interest rates of 3-24% (2016: 5-24%, 1-20 year). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

### 35. Transactions with related parties (continued)

Compensation of key management personnel was comprised of the following:

<i>In thousand Armenian drams</i>	31/12/2017	31/12/2016
Salaries and other short-term benefits	494,746	405,774
<b>Total key management compensation</b>	<b>494,746</b>	<b>405,774</b>

### 36. Fair value measurement

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

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

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the 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).

### 36. Fair value measurement (continued)

#### 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.

As of 31 December 2017

<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
<b>Financial assets</b>				
Loans and advances to customers	–	151,021,736	151,021,736	165,167,500

<i>In thousand Armenian drams</i>	<b>Level 1</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
Cash and cash equivalents	39,842,049	–	39,842,049	39,842,049
Amounts due from banks	–	10,546,355	10,546,355	10,546,355
Other financial assets	–	379,607	379,607	379,607
<b>Financial liabilities</b>				
Amounts due to customers	–	173,914,157	173,914,157	173,914,157
Other borrowed funds	–	12,659,350	12,659,350	12,659,350
Amounts due to banks	–	15,173,467	15,173,467	15,173,467
Subordinated debt	–	5,854,396	5,854,396	5,854,396
Other financial liabilities	–	943,666	943,666	943,666

As of 31 December 2016

<i>In thousand Armenian drams</i>	<b>Level 1</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>Financial assets</b>				
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
<b>Financial liabilities</b>				
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
Amounts due to banks	–	7,598,818	7,598,818	7,598,818
Subordinated debt	–	399,715	399,715	399,715
Other financial liabilities	–	278,064	278,064	278,064

### 36. Fair value measurement (continued)

#### Financial instruments that are not measured at fair value

##### *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 5 % to 24% per annum (2015: 5% 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 appraiser.

*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.

<i>As of December 31, 2017</i>			
<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<b>Financial assets</b>			
Securities pledged under repurchase agreements		3,056,113	<b>3,056,113</b>
Investments available for sale	883,076	21,871,348	<b>22,754,424</b>
Trading securities		787,330	<b>787,330</b>
Held to maturity investments		346,140	<b>346,140</b>
<b>Total</b>	<b>883,076</b>	<b>26,060,931</b>	<b>26,761,697</b>
<b>Financial liabilities</b>			
Derivative financial liabilities		68,857	<b>68,857</b>
Bonds issued by the Bank		5,931,969	<b>5,931,969</b>
<b>Total</b>	<b>0</b>	<b>3,999,793</b>	<b>3,999,793</b>
<b>Net Fair Value</b>	<b>883,076</b>	<b>20,060,105</b>	<b>20,760,871</b>

**36. Fair value measurement (continued)**  
**Financial instruments that are measured at fair value (continued)**

<i>As of December 31, 2016</i>			
<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<b>Financial assets</b>			
Securities pledged under repurchase agreements	0	0	0
Investments available for sale	604,112	14,267,299	14,871,411
Trading securities	0	184,833	184,833
<b>Total</b>	<b>604,112</b>	<b>14,452,132</b>	<b>15,056,244</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	0	31,591	31,591
<b>Total</b>	<b>0</b>	<b>31,591</b>	<b>31,591</b>
<b>Net Fair Value</b>	<b>604,112</b>	<b>14,420,541</b>	<b>15,024,653</b>

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 19 for further information about this equity investment.

## Fair value measurement of non-financial assets and liabilities

<i>In thousand Armenian drams</i>	<i>As of December 31, 2017</i>	
	<i>Level 3</i>	<i>Total</i>
<b>Non financial assets</b>		
Land and Buildings	4,724,230	4,724,230
<b>Total</b>	4,724,230	4,724,230

<i>In thousand Armenian drams</i>	<i>As of December 31, 2016</i>	
	<i>Level 3</i>	<i>Total</i>
<b>Non financial assets</b>		
Land and Buildings	5,134,018	5,134,018
<b>Total</b>	5,134,018	5,134,018

## Fair value measurement of non-financial assets and liabilities (continued)

### *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:

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Total</i>
<b>Non financial assets</b>		
<b>Balance as at 1 January 2017</b>	5,134,018	5,134,018
Purchases	103	103
Gains/Loss recognised in other comprehensive income	(56,861)	(56,861)
Disposals	(156,025)	(156,025)
Transfer between PPE categories	0	0
Accumulated depreciation	(197,005)	(197,005)
<b>Net fair value at 31 December 2017</b>	<b>4,724,230</b>	<b>4,724,230</b>
 <i>In thousand Armenian drams</i>	 <i>Land and buildings</i>	 <i>Total</i>
<b>Non financial assets</b>		
<b>Balance as at 1 January 2016</b>	5,150,882	5,150,882
Purchases	19,823	19,823
Gains/Loss recognised in other comprehensive income	206,031	206,031
Disposals	(56,143)	(56,143)
Accumulated depreciation	(186,575)	(186,575)

*In thousand Armenian drams*

**Net fair value at 31 December 2016**

<i>Land and buildings</i>	<i>Total</i>
5,134,018	5,134,018

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 land in question, including plot size, location, encumbrances and current use and other.

The land and buildings were revaluated in 2016. The buildings were previously revaluated in 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.

### **37. Transferred financial assets and assets held or pledged as collateral**

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

		<i>31/12/2017</i>		
		<i>Investment securities available</i>		
	<i>Transferred financial asset</i>	<i>Trading securities</i>	<i>for sale</i>	<i>Total</i>
Carrying amount of assets	Repurchase agreements	0	3,056,113	<b>3,056,113</b>
<b>Total</b>		<b>0</b>	<b>3,056,113</b>	<b>3,056,113</b>
Carrying amount of associated liabilities	Repurchase agreements	0	2,900,619	<b>2,900,619</b>
<b>Total</b>		<b>0</b>	<b>2,900,619</b>	<b>2,900,619</b>
<b>Net position</b>		<b>0</b>	<b>155,494</b>	<b>155,494</b>

		<i>31/12/2016</i>		
		<i>Investment securities available</i>		
	<i>Transferred financial asset</i>	<i>Trading securities</i>	<i>for sale</i>	<i>Total</i>
Carrying amount of assets	Repurchase agreements	0	0	<b>0</b>
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>
Carrying amount of associated liabilities	Repurchase agreements	0	0	<b>0</b>
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Net position</b>		<b>0</b>	<b>0</b>	<b>0</b>

#### *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.

Likewise, the Group may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities. In this case, the counterparty retains substantially all the risks and rewards of ownership. Accordingly, the Group does not recognize such securities and records a separate asset for any possible collateral provided as cash.

As at 31 December 2017 the Group have securities sold under repurchase agreements amounted to 3,056,113 (at 31 December 2016 AMD 0).

### 38. Offsetting of financial instruments

The table below shows financial assets offset against financial liabilities in the 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 statement of financial position:

	<i>Net amount of</i>			<i>Related amounts not offset</i>		
	<i>Gross amount of recognized financial liabilities set off</i>	<i>Gross amount of recognized financial assets in the statement of financial position</i>	<i>Net amount of financial assets recognized in the consolidated statement of financial position</i>	<i>in the consolidated statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>
<i>31/12/2017</i>	<i>Gross amount of recognized financial assets</i>	<i>in the statement of financial position</i>	<i>statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
<b>Financial liabilities</b>						
Repurchase agreements	4,820,511	–	4,820,511	(4,820,511)	–	–
<b>Total</b>	<b>4,820,511</b>	<b>–</b>	<b>4,820,511</b>	<b>(4,820,511)</b>	<b>–</b>	<b>–</b>

	<i>Net amount of</i>			<i>Related amounts not offset</i>		
	<i>Gross amount of recognized financial liabilities set off</i>	<i>Gross amount of recognized financial assets in the statement of financial position</i>	<i>Net amount of financial assets recognized in the consolidated statement of financial position</i>	<i>in the consolidated statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>
<i>31/12/2016</i>	<i>Gross amount of recognized financial assets</i>	<i>in the statement of financial position</i>	<i>statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
<b>Financial liabilities</b>						
Repurchase agreements	1,373,788	–	1,373,788	(1,373,788)	–	–
<b>Total</b>	<b>1,373,788</b>	<b>–</b>	<b>1,373,788</b>	<b>(1,373,788)</b>	<b>–</b>	<b>–</b>

### 39. 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 40 for the Group's contractual undiscounted repayment obligations.

*In thousand Armenian drams*

*As of December 31, 2017*

	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal over 12 months</i>	<i>No Maturity</i>	<i>Total</i>
<b>Assets</b>									
Cash and cash equivalents	39,842,049	0	0	<b>39,842,049</b>	0	0	<b>0</b>	0	<b>39,842,049</b>
Trading securities	0	3,567	11,146	<b>14,713</b>	537,175	235,442	<b>772,617</b>	0	<b>787,330</b>
Amounts due from banks	8,222,566	0	791,619	<b>9,014,185</b>	0	0	<b>0</b>	1,532,170	<b>10,546,355</b>
Loans and advances to customers	8,432,724	18,147,543	37,792,977	<b>64,373,244</b>	53,148,160	47,646,096	<b>100,794,256</b>	0	<b>165,167,500</b>
Investments available for sale	16,495	202,236	1,730,394	<b>1,949,125</b>	15,116,792	4,800,098	<b>199,168,900</b>	946,203	<b>22,812,218</b>
Securities pledged under repurchase agreements	3,056,113	0	0	<b>3,056,113</b>	0	0	<b>0</b>	0	<b>3,056,113</b>
Investments held for sale	0	0	346,140	<b>346,140</b>	0	0		0	<b>346,140</b>
Property, plant and equipment	0	0	0	<b>0</b>	0	0	<b>0</b>	6,115,287	<b>6,115,287</b>
Intangible assets	0	0	0	<b>0</b>	0	0	<b>0</b>	226,538	<b>226,538</b>
Reposessed assets	0	0	1,832,119	<b>1,832,119</b>	0	0	<b>0</b>	0	<b>1,832,119</b>
Other assets	1,632,331	23,630	326,598	<b>1,982,559</b>	575	21,070	<b>21,645</b>	0	<b>2,004,204</b>
	<b>61,202,278</b>	<b>18,376,975</b>	<b>42,830,993</b>	<b>122,410,247</b>	<b>68,802,702</b>	<b>52,702,706</b>	<b>121,505,408</b>	<b>8,820,198</b>	<b>252,735,853</b>
<b>Liabilities</b>									
Amounts due to banks	13,456,203	0	1,644,649	<b>15,100,852</b>	0	0	<b>0</b>	72,615	<b>15,173,467</b>
Derivative liabilities	0	0	0	<b>0</b>	0	0	<b>0</b>	68,857	<b>68,857</b>
Amounts due to customers	73,332,379	11,139,342	63,824,245	<b>148,295,966</b>	25,203,657	220,881	<b>25,424,538</b>	193,653	<b>173,914,157</b>
Other borrowed funds	132,456	225,435	1,606,581	<b>1,964,472</b>	8,091,692	2,603,186	<b>10,694,878</b>	-	<b>12,659,350</b>
Bonds issued by the Bank	0	43,438	47,531	<b>90,969</b>	5,841,000	0	<b>5,841,000</b>	-	<b>5,931,969</b>
Income tax liabilities	0	0	494,171	<b>494,171</b>	0	0	<b>0</b>	-	<b>494,171</b>
Deferred tax liabilities	0	0	0	<b>0</b>	1,302,993	0	<b>1,302,993</b>	-	<b>1,302,993</b>
Other liabilities	384,506	40,774	885,582	<b>1,310,862</b>	0	26,010	<b>26,010</b>	-	<b>1,336,872</b>
Subordinated debt	0	0	-3,214	<b>-3,214</b>	0	5,857,610	<b>5,857,610</b>	-	<b>5,854,396</b>
<b>Total Liabilities</b>	<b>87,305,544</b>	<b>11,448,989</b>	<b>68,499,545</b>	<b>167,254,078</b>	<b>40,439,342</b>	<b>8,707,687</b>	<b>49,147,029</b>	<b>335,125</b>	<b>216,736,232</b>
<b>Net position</b>	<b>(26,103,266)</b>	<b>6,927,986</b>	<b>(25,668,552)</b>	<b>(44,843,831)</b>	<b>28,363,360</b>	<b>43,995,019</b>	<b>80,843,452</b>	<b>8,485,073</b>	<b>35,999,621</b>
<b>Accumulated gap</b>	<b>(26,103,266)</b>	<b>(19,175,279)</b>	<b>(18,740,565)</b>		<b>2,694,809</b>	<b>80,843,452</b>			

39. Maturity analysis of assets and liabilities (continued)

*In thousand Armenian drams*

<i>As of December 31, 2016</i>									
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal over 12 months</i>	<i>No Maturity</i>	<i>Total</i>
<b>Assets</b>									
Cash and cash equivalents	44,751,939	-	-	44,751,939			0		44,751,939
Trading securities		3,884	1,196	5,080	165,560	14,193	179,753		184,833
Amounts due from banks	1,070,779	-717	-26,746	1,043,316	38,381		38,381	1,239,185	2,320,882
Loans and advances to customers	7,961,755	23,469,389	29,786,359	61,217,503	21,189,352	36,617,969	57,807,321		119,024,824
Investments available for sale		149,274	428,507	577,781	10,023,995	3,653,189	13,677,184	674,240	14,929,205
Securities pledged under repurchase agreements				0			0		0
Property, plant and equipment			-	0			0	6,384,767	6,384,767
Intangible assets					0			0	139,802
Reposessed assets			2,385,649	2,385,649			0		2,385,649
Other assets	605,435	17,123	22,762	645,320	2,233		2,233	223,816	871,369
<b>Total assets</b>	<b>54,389,908</b>	<b>23,638,953</b>	<b>32,597,727</b>	<b>110,626,588</b>	<b>31,419,521</b>	<b>40,285,351</b>	<b>71,704,872</b>	<b>8,661,810</b>	<b>190,993,270</b>
<b>Liabilities</b>									
Amounts due to banks	205,473			205,473			0	72,591	278,064
Derivative liabilities	31,591			31,591			0	0	31,591
Amounts due to customers	54,242,791	26,653,162	52,922,912	133,818,864	5,778,935	82,405	5,861,340	13	139,680,217
Other borrowed funds	1,427,187	660,753	637,930	2,725,870	5,509,200	861,138	6,370,338		9,096,208
Current income tax liabilities		175,744		175,744			0		175,744
Deferred income tax liabilities				0	1,113,141		1,113,141		1,113,141
Other liabilities	436,835			436,835	404,649		404,649		841,484
Subordinated debt	1,739,947			1,739,947	1152	5,857,718	5,858,870		7,598,817
<b>Total Liabilities</b>	<b>58,083,824</b>	<b>27,489,659</b>	<b>53,560,842</b>	<b>139,134,324</b>	<b>12,807,077</b>	<b>6,801,261</b>	<b>19,608,338</b>	<b>72,604</b>	<b>158,815,266</b>
<b>Net position</b>	<b>(3,693,916)</b>	<b>(3,850,706)</b>	<b>(20,963,115)</b>	<b>(28,507,736)</b>	<b>18,612,444</b>	<b>33,484,090</b>	<b>60,685,740</b>	<b>8,589,206</b>	<b>32,178,004</b>
<b>Accumulated gap</b>	<b>(3,693,916)</b>	<b>(7,544,621)</b>	<b>(24,813,820)</b>		<b>(2,350,671)</b>	<b>60,685,740</b>			

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.

#### **40. 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.

#### **40. Risk management (continued)**

##### *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 fulfill 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.

#### *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 Bank 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.

### **40. Risk management**

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 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.

#### *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.

## **40. Risk management**

### **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 of December 31 2017 and 31 December 2016 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 of 31 December 2017 and 31 December 2016.

<i>In thousand Armenian drams</i>	<i>Armenia</i>	<i>Other non-OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	37,825,147	556,703	1,460,198	<b>39,842,049</b>
Trading securities	787,330			<b>787,330</b>
Amounts due from banks	9,587,915	672,052	286,388	<b>10,546,355</b>
Loans and advances to customers	142,405,904	16,556,249	6,205,348	<b>165,167,500</b>
Investments available for sale	21,923,809	888,409		<b>22,812,218</b>
Securities pledged under repurchase agreements	3,056,113			<b>3,056,113</b>
Investments held for sale	346,140			<b>346,140</b>
Other financial assets	153,991	225,352	265	<b>379,607</b>
<b>As of 31 December 2017</b>	<b>216,086,349</b>	<b>18,898,765</b>	<b>7,952,199</b>	<b>242,937,312</b>

<i>In thousand Armenian drams</i>	<i>Armenia</i>	<i>Other non- OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	43,719,886	156,599	875,454	45,286,422
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
Securities pledged under repurchase agreements	-	-	-	0
Other financial assets	111,623	84	169,013	280,720
<b>As of 31 December 2016</b>	<b>152,832,835</b>	<b>16,193,516</b>	<b>12,466,052</b>	<b>181,492,403</b>

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

#### 40. 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:

<i>In thousand Armenian drams</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
-----------------------------------	-------------------	-------------------

In thousand Armenian drams	31/12/2017	31/12/2016
Loans collateralized by real estate	82,040,110	58,061,771
Loans collateralized by gold	15,950,465	13,485,219
Loans collateralized by guarantees of enterprises	6,383,684	5,895,609
Loans collateralized by vehicles	2,320,430	1,977,955
Loans collateralized by cash	34,978,334	27,221,417
Loans collateralized by inventories	676,734	896,863
Loans collateralized by equipment	3,300,657	1,485,529
Other securities	5,541,894	1,513,788
Other collateral	7,231,871	5,155,738
Unsecured loans	11,606,672	7,885,131
<b>Total loans and advances to customers (gross)</b>	<b>170,030,851</b>	<b>123,579,020</b>

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 2017 amounts to AMD 7,808,184 thousand (2016: AMD 8,147,725 thousand ).

#### 40. 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 approaching conservatively. 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.

#### 40. Risk management (continued)

##### Impairment and provisioning policies (continued)

###### *Loans and advances neither past due or impaired*

The table below shows the credit quality by class of asset for loans and advances to customers:

<i>31 December 2017</i>	<i>Neither past due nor impaired</i>			<i>Past due but not</i>		<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>individually impaired</i>	<i>Individually impaired</i>	
Loans and advances to customers	34,978,334	126,653,387	-	1,145,174	7,253,956	170,030,851

<i>31 December 2016</i>	<i>Neither past due nor impaired</i>			<i>Past due but not</i>		<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>not impaired</i>	<i>Individually impaired</i>	
Loans and advances to customers	27,221,417	88,178,139		1,446,721	6,732,743	123,579,020

###### *Past due but not individually impaired loans*

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

	<i>31/12/2017</i>				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	<i>Total</i>
<i>In thousand Armenian drams</i>					
Loans and advances to customers					
Manufacture	0	10,016	5,296	14,672	29,984
Agriculture	186	2,637	4,788	26,842	34,454
Construction	909	0	0	0	909
Trade	0	0	14,196	14,923	29,119
Transport and communication	0	0	0	12,014	12,014
Consumer loans to individuals	194,988	133,290	71,080	308,747	708,105
Mortgage	42,914	66,224	17,632	199,623	326,394
Services	0	0	0	0	0
Other sectors	0	0	0	4,195	4,195
<b>Total</b>	<b>238,997</b>	<b>212,167</b>	<b>112,992</b>	<b>581,016</b>	<b>1,145,174</b>

31/12/2016					
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	<i>Total</i>
<i>In thousand Armenian drams</i>					
Loans and advances to customers					
Manufacture	0	0	21,986	11,343	33,329
Agriculture	994	0	1,281	21,290	23,565
Construction	0	0	0	0	0
Trade	21,428	0	5,357	73,518	100,303
Transport and communication	0	0	0	0	0
Consumer loans to individuals	107,802	103,187	58,902	589,546	859,437
Mortgage	64,917	18,038	42,889	260,418	386,261
Services	0	0	0	0	0
Other sectors	3,622	0	0	40,203	43,825
<b>Total</b>	<b>198,763</b>	<b>121,225</b>	<b>130,415</b>	<b>996,318</b>	<b>1,446,720</b>

#### 40. 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 Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

##### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors 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 comprehensive income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2017. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2017 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousand Armenian drams</i>	<i>Increase in basis points 31/12/2017</i>	<i>Sensitivity of net interest income 31/12/2017</i>	<i>Sensitivity of equity 31/12/2017</i>
<b>Currency</b>			
AMD	3.7%	(112,494)	(1,718,847)
USD	1%	–	(177,373)
	<i>Decrease in basis points 31/12/2017</i>	<i>Sensitivity of net interest income 31/12/2017</i>	<i>Sensitivity of equity 31/12/2017</i>
<b>Currency</b>			
AMD	-3.7%	112,494	1,718,847
USD	-1%	–	177,373

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

  

<i>Currency</i>	<i>Decrease in basis points 2016</i>	<i>Sensitivity of net interest income 2016</i>	<i>Sensitivity of equity 2016</i>
AMD	-3.7%	18,448	1,174,090
USD	-1%	–	142,859

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VaR methodologies. The 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 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

#### 40. Risk management (continued)

##### Currency risk (continued)

<i>In thousand Armenian drams</i>				
<i>Currency</i>	<i>As of December 31, 2017</i>		<i>As of December 31, 2016</i>	
	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>
USD	6%	(39,892)	6%	(34,858)
USD	-6%	39,892	-6%	34,858
EUR	11%	1,232	11%	377
EUR	-11%	(1,232)	-11%	(377)

#### 40. Risk management (continued)

##### 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. See note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the 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.

*These ratios were as follows:*

	31/12/2017, %	31/12/2016, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	35.26%	39.01%
N22- Current liquidity ratio(Highly liquid assets /liabilities on demand)	102.49%	116.23%

*Analysis of financial liabilities by remaining contractual maturities.*

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. See note 39 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.

*In thousand Armenian  
drams*

	31/12/2017					
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<b>Financial liabilities</b>						
Amounts due to banks	13,463,293	0	1,674,272	0	72,615	<b>15,210,180</b>
Derivative liabilities	0	0	0	0	68,857	<b>68,857</b>
Amounts due to customers	73,536,373	11,196,999	65,821,548	28,077,900	564,589	<b>179,197,409</b>
Other borrowed funds	132,553	227,335	1,689,991	10,212,515	3,980,126	<b>16,242,520</b>
Bonds issued by the Bank	0	43,438	47,531	6,414,215	0	<b>6,505,184</b>
Subordinated debt	0	0	(3,214)	0	7,907,774	<b>7,904,560</b>
<b>Total undiscounted financial liabilities</b>	<b>87,132,219</b>	<b>11,467,772</b>	<b>69,230,128</b>	<b>44,704,630</b>	<b>12,593,961</b>	<b>225,128,710</b>
<b>Commitments and contingent liabilities</b>	<b>10,352,506</b>	<b>360,101</b>	<b>1,791,053</b>	<b>1,016,495</b>	<b>19,450</b>	<b>13,539,605</b>

*In thousand Armenian  
drams*

	31/12/2016					
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<b>Financial liabilities</b>						
Amounts due to banks	205,473	0	0	0	72,591	<b>278,064</b>

*In thousand Armenian  
drams*

*31/12/2016*

	<i><b>Demand and less than 1 month</b></i>	<i><b>From 1 to 3 months</b></i>	<i><b>From 3 to 12 months</b></i>	<i><b>From 1 to 5 years</b></i>	<i><b>More than 5 years</b></i>	<i><b>Total</b></i>
Derivative liabilities	18,063	0	0	0	13,528	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	11,240,375
Other financial liabilities	402,055	0	0	0	0	402,055
Subordinated debt	1,742,795	0	0	0	8,316,020	10,058,815
<b>Total undiscounted financial liabilities</b>	<b>58,071,332</b>	<b>27,666,861</b>	<b>56,094,212</b>	<b>13,744,720</b>	<b>9,852,573</b>	<b>165,429,698</b>
<b>Commitments and contingent liabilities</b>	<b>6,088,226</b>	<b>2,253,510</b>	<b>2,680,709</b>	<b>332,880</b>	<b>–</b>	<b>11,355,325</b>

#### **40. Risk management (continued)**

##### **Liquidity risk (continued)**

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

##### **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 incompatibility of the Group's operations and procedures to the legislation in force or their breach, the lack of information of the Group's staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Group. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness.

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

Legal risk: all the standard contract forms of the 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 Bank'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.

#### **40. Risk management (continued)**

##### **Operational risk (continued)**

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 correspondence 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.

#### **41. Segment information**

For management purposes, the Group is organised into three operating segments based on products and services.

Retail banking- Handling individual customers deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.

Corporate banking- Handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

Trading and investment banking-Treasury and finance, investment banking, leasing and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

In banks operating segments are included operating assets and liabilities, which are the most part of the Group's assets and liabilities.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2017 and 2016.

The following table present information regarding the Group's operating segments as of 31.12.17

*In thousand Armenian drams*

	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Net interest income	5,056,916	2,662,092	1,621,177	9,340,185
Net non-interest income	2,558,947	1,418,837	271,285	4,249,068
Operating profit	7,615,863	4,080,929	1,892,462	13,589,253
Impairment losses	(415,187)	(797,687)	0	(1,212,874)
Depreciation and amortization	(270,165)	(16,978)	(701)	(287,844)
Staff and other admin. expenses	(2,496,631)	(493,872)	(154,937)	(3,145,439)
<b>Segment profit</b>	<b>4,433,879</b>	<b>2,772,392</b>	<b>1,736,825</b>	<b>8,943,095</b>
Net (losses)/gains from foreign currency conversion				(1,128)
Total administrative expenses and salary				(4,510,395)
Other expenses				(17,058)
Profit before income tax				4,414,515
Income tax expense				(788,393)
<b>Profit for the period</b>				<b>3,626,122</b>

*In thousand Armenian drams*

	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Interest bearing fin. assets	70,521,233	94,646,267	37,548,156	202,715,656
Interest bearing fin. liabilities	77,300,907	102,467,646	33,833,643	213,602,196

Interest bearing assets include financial assets through profit and loss, investments available for sale, loans to banks, loans and advances to customers, securities pledged under repurchase agreements, receivables from letters of credit, receivables from finance leases and receivables from factoring.

Interest bearing financial liabilities include deposit and balances from banks, current accounts and deposits from customers, bonds issued by the bank, subordinated and other borrowings.

The following table present information regarding the Group's operating segments as of 31.12.16

*In thousand Armenian drams*

	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Net interest income	4,325,357	1,782,351	964,190	7,071,898
Net non-interest income	2,298,227	1,454,764	(615,950)	3,137,041
Operating profit	<b>6,623,584</b>	<b>3,237,115</b>	<b>348,240</b>	<b>10,208,939</b>
Impairment losses	(584,771)	(959,695)	0	(1,544,466)
Depreciation and amortization	(304,932)	(21,014)	(701)	(326,647)
Staff and other admin. expenses	(2,075,943)	(841,170)	(98,107)	(3,015,220)
<b>Segment profit</b>	<b>3,657,938</b>	<b>1,415,236</b>	<b>249,432</b>	<b>5,322,606</b>
Net (losses)/gains from foreign currency conversion				(237,214)
Total administrative expenses and salary				(3,576,803)
Other expenses				1,508,590
Profit before income tax				56,442
Income tax expense				
<b>Profit for the period</b>				<b>1,565,032</b>

<i>In thousand Armenian drams</i>	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Interest bearing fin. assets	50,655,851	68,368,973	17,434,920	136,459,744
Interest bearing fin. liabilities	71,036,412	76,242,623	9,405,863	156,684,898

#### 42. 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, policies and processes from the previous years.

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

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

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

In thousand Armenian drams	31/12/2017	31/12/2016
Tier 1 capital	24,722,195	20,622,475
Tier 2 capital	11,307,397	9,001,380
<b>Total regulatory capital</b>	<b>36,029,592</b>	<b>29,623,855</b>
<b>Risk-weighted assets</b>	<b>212,464,854</b>	<b>137,415,853</b>
<b>Capital adequacy ratio</b>	<b>16.96%</b>	<b>21.56%</b>

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

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

Starting from 1 January 2017 minimum Total Capital requirement for Banks is over AMD 30,000,000.

As at 31 December 2017, the regulatory capital of the Bank amounted to AMD **36,029,592** thousand (2016: AMD 29,623,855 thousand).