“Converse Bank” Closed Joint Stock Company

Consolidated financial statements

Year ended 31 December 2017
together with independent auditor’s report

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of "Converse Bank" Closed Joint Stock Company (the Bank) and its subsidiary (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed it
Allowance for loan impairment	
The assessment of the loan impairment allowance is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, expected net selling prices and expected realization period of the collateral. The use of different modelling techniques and assumptions could produce significantly different estimates of loan impairment allowance. This could have material effect on the financial results of the Group. Allowance for loan impairment is a key audit matter due to both the significance of loans to customers (65.4% of total assets of the Group as at 31 December 2017) and subjectivity of underlying assumptions for impairment estimation.	We tested the models and assumptions used to determine collective impairment and checked the formulas and inputs to the underlying models, such as overdue days of loans. For impairment losses calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification, including valuation of underlying collateral and forecasts of future cash flows. We focused on significant corporate loans with impairment indicators as of the reporting date. We also assessed disclosures in relation to allowance for loan impairment and the Group's exposure to credit risk in the Note 9 and Note 38 to the consolidated financial statements.

Other information included in the Group's 2017 Annual report

Other information consists of the information included in the Annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Board for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditor’s report is Eric Hayrapetyan.

CJSC Ernst & Young
Yerevan, Armenia

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

Eric Hayrapetyan

25 April 2018

Consolidated statement of financial position
as at 31 December 2017

(In thousand Armenian drams)

	Note	2017	2016
Assets			
Cash and cash equivalents	6	39,842,049	44,751,939
Trading securities	7	787,330	184,833
Amounts due from banks	8	10,546,355	2,320,882
Loans and advances to customers	9	165,167,500	119,024,824
Investment securities available for sale	10	22,812,218	14,929,205
Securities pledged under repurchase agreements	11	3,056,113	-
Held-to-maturity investments	12	346,140	-
Property, plant and equipment	13	6,115,287	6,384,767
Intangible assets	14	226,538	139,802
Repossessed assets	15	1,832,119	2,385,649
Other assets	16	2,004,204	871,369
Total assets		**252,735,853**	**190,993,270**
Liabilities and equity			
Liabilities			
Amounts due to banks	17	15,173,467	278,064
Derivative financial liabilities	18	68,857	31,591
Amounts due to customers	19	173,914,157	139,680,217
Debt securities issued	21	5,931,969	-
Current income tax liabilities		609,855	175,744
Deferred income tax liabilities	20	1,210,763	1,113,141
Other borrowed funds	22	12,659,350	9,096,208
Other liabilities	23	1,336,873	841,484
Subordinated debt	24	5,854,396	7,598,818
Total liabilities		**216,759,687**	**158,815,267**
Equity	25		
Share capital		16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		1,243,064	1,005,996
Revaluation surplus for land and buildings		3,181,072	3,353,126
Revaluation reserve for available-for-sale financial assets		2,171,785	1,365,201
Retained earnings		12,900,379	9,973,814
Total equity		**35,976,166**	**32,178,003**
Total liabilities and equity		**252,735,853**	**190,993,270**

The consolidated financial statements were approved and signed by the Bank's Executive Director and Chief Accountant on 25 April 2018.

Arthur Hakobyan

Chief Executive Officer – Chairman of Executive Management

Davit Azatyan

Chief accountant

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

(In thousand Armenian drams)

	Note	***2017***	***2016***
Interest income	27	17,624,253	13,859,656
Interest expense	27	(8,284,069)	(6,787,759)
Net interest income		**9,340,184**	**7,071,897**
Allowance for loan impairment		(1,146,313)	(1,507,899)
Net interest income after allowance for loan impairment		**8,193,871**	**5,563,998**
Fee and commission income	28	2,433,145	2,003,640
Fee and commission expense	28	(752,304)	(763,729)
Net trading income	29	1,279,654	899,056
Net loss from foreign currency translation		(1,128)	(237,214)
Gains less losses from investment securities available for sale		304,220	54,229
Other income	30	910,112	943,846
Personnel expenses	31	(4,298,789)	(3,379,260)
Depreciation of property and equipment	13	(731,100)	(739,362)
Amortization of intangible assets	14	(41,719)	(76,339)
Administrative and other operating expenses	32	(2,815,439)	(2,623,145)
Other impairment and provisions	15, 16	(124,639)	(137,130)
Profit before income tax		**4,355,884**	**1,508,590**
Income tax (expense)/benefit	20	(799,838)	56,442
Profit for the year		**3,556,046**	**1,565,032**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment		–	213,769
Income tax effect	20	–	(42,754)
Net other comprehensive income not to be reclassified subsequently to profit or loss		**–**	**171,015**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised gains on investment securities available-for-sale		1,312,450	1,339,201
Realised gains on investment securities available-for-sale transferred to profit or loss		(304,220)	(54,229)
Income tax effect	20	(201,646)	(256,994)
Net other comprehensive income to be reclassified subsequently to profit or loss		**806,584**	**1,027,978**
Other comprehensive income for the year, net of tax		**806,584**	**1,198,993**
Total comprehensive income for the year		**4,362,630**	**2,764,025**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2017

(In thousand Armenian drams)

	Share capital	*Share premium*	*Statutory general reserve*	*Revaluation reserve of securities available for sale*	*Revaluation reserve of PPE*	*Retained earnings*	*Total*
Balance as at 1 January 2016	**7,002,033**	**63,233**	**1,005,996**	**337,223**	**3,316,639**	**8,976,301**	**20,701,425**
Issue of share capital	9,414,600	–	–	–	–	–	**9,414,600**
Dividends to shareholders	–	–	–	–	–	(702,047)	**(702,047)**
Transactions with owners	**9,414,600**	**–**	**–**	**–**	**–**	**(702,047)**	**8,712,553**
Profit for the year	–	–	–	–	–	1,565,032	**1,565,032**
Other comprehensive income for the year	–	–	–	1,027,978	171,015	–	**1,198,993**
Total comprehensive income for the year	**–**	**–**	**–**	**1,027,978**	**171,015**	**1,565,032**	**2,764,025**
Depreciation of revaluation reserve	–	–	–	–	(134,528)	134,528	**–**
Balance as at 31 December 2016	**16,416,633**	**63,233**	**1,005,996**	**1,365,201**	**3,353,126**	**9,973,814**	**32,178,003**
Distribution to general reserve	–	–	237,068	–	–	(237,068)	**–**
Dividends to shareholders	–	–	–	–	–	(564,467)	**(564,467)**
Transactions with owners	**–**	**–**	**237,068**	**–**	**–**	**(801,535)**	**(564,467)**
Profit for the year	–	–	–	–	–	3,556,046	**3,556,046**
Other comprehensive income for the year	–	–	–	806,584	–	–	**806,584**
Total comprehensive income for the year	**–**	**–**	**–**	**806,584**	**–**	**3,556,046**	**4,362,630**
Depreciation of revaluation reserve	–	–	–	–	(172,054)	172,054	**–**
Balance as at 31 December 2017	**16,416,633**	**63,233**	**1,243,064**	**2,171,785**	**3,181,072**	**12,900,379**	**35,976,166**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2017

(In thousand Armenian drams)

	Note	2017	2016
Cash flows from operating activities			
Interest received		16,627,930	13,110,944
Interest paid		(7,984,091)	(6,550,012)
Fees and commissions received		2,433,145	2,003,640
Fees and commissions paid		(752,304)	(763,729)
Net trading income received		1,233,793	899,056
Other income received		910,112	943,846
Personnel expenses paid		(3,892,063)	(3,349,030)
Administrative and other operating expenses paid		(2,813,989)	(2,615,419)
Cash flows from operating activities before changes in operating assets and liabilities		**5,762,533**	**3,679,296**
Net (increase)/decrease in operating assets			
Trading securities		(556,636)	22,759
Amounts due from banks		(8,296,629)	6,698,218
Loans and advances to customers		(48,262,440)	(38,685,135)
Repossessed assets		584,633	190,557
Other assets		(1,182,528)	(10,347)
Net increase/(decrease) in operating liabilities			
Amounts due to banks		15,513,185	(6,705,878)
Amounts due to customers		35,343,011	27,986,234
Derivative financial liabilities		37,678	17,472
Other liabilities		89,140	61,502
Net cash used in operating activities before income tax		**(968,053)**	**(6,745,322)**
Income tax paid		(469,751)	(41,940)
Net cash used in operating activities		**(1,437,804)**	**(6,787,262)**
Cash flows from investing activities			
Purchase of investment securities available for sale		(10,955,217)	(7,611,181)
Proceeds from sale and redemption of investment securities available for sale		1,633,685	3,981,403
Purchase of held-to-maturity investments		(346,349)	–
Purchase of property and equipment		(738,006)	(430,846)
Proceeds from sale of property and equipment		274,936	–
Purchase of intangible assets		(128,455)	(29,133)
Net cash used in investing activities		**(10,259,406)**	**(4,089,757)**
Cash flows from financing activities			
Proceeds from issue of share capital		–	9,414,600
Proceeds from bonds issued	39	5,848,861	–
Proceeds from other borrowed funds	39	6,240,921	2,154,195
Repayment of other borrowed funds	39	(2,703,308)	(1,410,854)
Proceeds from subordinated debt	39	–	343,425
Repayment of subordinated debt	39	(1,453,077)	–
Dividends paid to shareholders		(564,467)	(702,047)
Net cash from financing activities		**7,368,930**	**9,799,319**
Net decrease in cash and cash equivalents		**(4,328,280)**	**(1,077,700)**
Cash and cash equivalents at the beginning of the year		**44,751,939**	**46,029,188**
Effect of exchange rates changes on cash and cash equivalents		(581,610)	(199,549)
Cash and cash equivalents at the end of the year	6	**39,842,049**	**44,751,939**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

1. Principal activities

Organization and operations

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

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

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

The Bank's main office is in Yerevan and its 33 branches are located in Yerevan and in different regions.
The registered office of the Bank is located at 26/1 Vazgen Sargsyan Str., Yerevan, RA.

Advanced Global Investments LLC is the parent of the Group (80.94% of shares) as at 31 December 2017.
The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

Subsidiary of the Bank

The consolidated financial statements include the following subsidiary:

	Ownership, %			*Date of*	
Subsidiary	***2017***	***2016***	***Country***	***incorporation***	***Industry***
"Converse Collection" LLC	100%	100%	Armenia	20 April 2000	Transportation of cash, cash equivalents and other assets

Armenian business environment

Armenia continues 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.

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

3. Summary of accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 39.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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.

Recognition of income and expenses

Revenue is recognised 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 recognised 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 recognised:

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 recognised 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.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Dividend income

Revenue is recognised 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 recognised in profit or loss when the corresponding service is provided.

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 recognised in the consolidated statement of comprehensive income 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 CBA exchange rates at 31 December 2017 and 31 December 2016 were AMD 484.1 and AMD 483.94 to 1 USD, respectively.

Taxation

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

3. Summary of accounting policies (continued)

Cash and cash equivalents

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

Precious metals

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

Amounts due from banks

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

Financial instruments

The Group recognises 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 trade 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.

3. Summary of accounting policies (continued)

Financial instruments (continued)

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 recognised 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 recognised 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.

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, 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.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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.

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised 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 recognised by transferring the cumulative loss that is recognised 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 recognised 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 recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3. Summary of accounting policies (continued)

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.

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 recognised 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 lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3. Summary of accounting policies (continued)

Leases (continued)

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

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 lessee

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

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 revalued amounts.. 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 revalued amount. It has unlimited useful life and thus is not depreciated.

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

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

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

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

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

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

3. Summary of accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

Intangible assets

Intangible assets include computer software, licences and other.

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

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

Repossessed assets

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

Grants

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

Borrowings

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

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 recognised 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.

3. Summary of accounting policies (continued)

Equity

Share capital

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

Share premium

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

Retained earnings

Includes retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for available-for-sale securities

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

Offsetting

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

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

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 IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Group plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Group is in the process of quantifying the effect of adoption of IFRS 9.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Group expects to continue measuring at fair value all financial assets currently held at fair value. The Group expects to designate equity instruments as FVOCI. Investments in funds will be measured at FVPL.

Trading debt and equity securities will continue to be classified as FVPL. Debt securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Group expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. HTM debt securities will be measured at amortised cost. All loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) Impairment

IFRS 9 requires the Group to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL 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 is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. At this point the Group has finalized segmenting, according to which for ECL calculation loan portfolio will be divided into four groups: Loans to legal entities, Mortgage loans, Gold loans and Other retail/consumer loans. PD, EAD and LDG models are currently under finalization. Macro parameters to be used in PD model are also agreed, now final testing is underway. When estimating the ECLs, the Group will consider linear dependence.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard using the modified retrospective method by recognising the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Group's income will not be impacted by the adoption of this standard.

The Group currently does not expect a material effect from initial application of IFRS 15.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

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

These improvements include:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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 recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with the amendments, the Group does not expect any effect on its consolidated financial statements.

4. Critical accounting estimates and judgements

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

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

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.

Revaluation of land and buildings

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

Measurement of fair values

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

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.

5. Segment information

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

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate banking	Principally 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. Income taxes are managed on a profit before income tax basis and are allocated to operating segments.

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

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments.

	2017			
In thousand Armenian drams	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
Net interest income	5,056,917	2,662,091	1,621,176	**9,340,184**
Net non-interest income	2,549,251	1,353,306	271,142	**4,173,699**
Operating profit	**7,606,168**	**4,015,397**	**1,892,318**	**13,513,883**
Impairment losses	(435,068)	(835,884)	-	**(1,270,952)**
Depreciation and amortization	(327,009)	(411,214)	(34,596)	**(772,819)**
Personnel expenses	(2,272,008)	(1,512,178)	(514,603)	**(4,298,789)**
Administrative and other operating expenses	(970,814)	(1,459,170)	(385,455)	**(2,815,439)**
Profit before income tax	**3,601,269**	**(203,049)**	**957,664**	**4,355,884**
Income tax expense	(604,881)	(34,105)	(160,852)	**(799,838)**
Profit for the year	**2,996,388**	**(237,154)**	**796,812**	**3,556,046**

	2017			
In thousand Armenian drams	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
Interest earning financial assets	70,521,233	94,646,267	37,548,156	**202,715,656**
Interest bearing financial liabilities	76,763,097	103,005,465	33,833,643	**213,602,205**

	2016			
In thousand Armenian drams	***Retail banking***	***Corporate banking***	***Trading and IB***	***Total***
Net interest income	4,325,356	1,782,352	964,189	**7,071,897**
Net non-interest income	2,124,443	1,344,760	(569,375)	**2,899,828**
Operating profit	**6,449,799**	**3,127,112**	**394,814**	**9,971,725**
Impairment losses	(622,846)	(1,022,183)	-	**(1,645,029)**
Depreciation and amortization	(336,474)	(444,326)	(34,901)	**(815,701)**
Personnel expenses	(1,482,295)	(1,654,719)	(242,246)	**(3,379,260)**
Administrative and other operating expenses	(976,068)	(1,513,715)	(133,362)	**(2,623,145)**
Profit before income tax	**3,032,116**	**(1,507,831)**	**(15,695)**	**1,508,590**
Income tax expense	37,566	18,682	194	**56,442**
Profit for the year	**3,069,682**	**(1,489,149)**	**(15,501)**	**1,565,032**

5. Segment information (continued)

In thousand Armenian drams	*2016*			
	Retail banking	***Corporate banking***	***Trading and IB***	***Total***
Interest earning financial assets	50,655,850	68,368,974	17,434,920	**136,459,744**
Interest bearing financial liabilities	70,799,577	76,479,457	9,405,863	**156,684,897**

Interest earning 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.

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.

Geographic information

The Group's operations are primarily concentrated in Armenia. The Group has no current assets other than financial instruments outside Armenia.

6. Cash and cash equivalents

In thousand Armenian drams	***2017***	***2016***
Cash on hand	8,802,423	10,895,951
Correspondent account with the CBA, including obligatory reserves	29,005,963	32,812,539
Placements with other banks	2,033,663	1,043,449
Total cash and cash equivalents	**39,842,049**	**44,751,939**

As at 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 (2016: 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 at 31 December 2017 placements with other banks in amount of AMD 1,716,360 thousand (84%) were due from three banks (2016: AMD 926,842 thousand (89%) were due from three banks).

7. Trading securities

In thousand Armenian drams	***2017***	***2016***
Debt securities issued by the Government of the RA	787,330	139,594
RA corporate bonds	-	45,239
Total trading securities	**787,330**	**184,833**

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

	2017		***2016***	
	%	***Maturity***	***%***	***Maturity***
Debt securities issued by the Government of the RA	8.0-13.0	2020-2036	10.0-12.0	2018-2023
RA corporate bonds	-	-	15.0	2018

8. Amounts due from banks

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

As at 31 December 2017 amounts receivable under reverse repurchase agreements were collateralized by RA government and corporate bonds with fair value of AMD 11,831,416 thousand (2016: nil)

As of 31 December 2017 the balances included loans and deposits to banks in amount of AMD 753,858 thousand due from one counterparty (2016: AMD 4,006 thousand due from one counterparty).

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

9. Loans and advances to customers

In thousand Armenian drams	***2017***	***2016***
Loans to customers	139,239,113	106,201,759
Overdrafts	25,558,298	15,672,506
Reverse repurchase agreements	4,820,511	1,373,788
Financial lease receivables	316,157	296,207
Factoring	95,247	33,629
Letter of credit	1,525	1,131
	170,030,851	**123,579,020**
Less allowance for loan impairment	(4,863,351)	(4,554,196)
Total loans and advances to customers	**165,167,500**	**119,024,824**

As at 31 December 2017 the Group had a concentration of loans totalling to AMD 48,686,742 thousand due from the ten largest groups of borrowers (28.63% of gross loan portfolio) (2016: AMD 49,226,623 thousand or 39.83% of gross loan portfolio). An allowance for impairment in amount of AMD 1,250,634 thousand (2016: AMD 1,184,887 thousand) was created against these loans.

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

	2017										
In thousand Armenian drams	***Manu-facturing***	***Energy***	***Agriculture (including loans to individuals)***	***Construc-tion***	***Trading***	***Transport and communi-cations***	***Services***	***Consumer loans to individuals***	***Mortgage***	***Other***	***Total***
At 1 January 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 year	30,820	24,642	197,988	87,276	232,288	23,419	92,338	218,628	182,016	56,898	1,146,313
Amounts written off	(9,747)	-	(110,431)	(90,418)	(207,695)	-	(136,936)	(1,190,886)	(480,995)	(47,081)	(2,274,189)
Recoveries	19,853	-	19,391	26,457	65,571	9,155	54,395	779,854	430,147	32,208	1,437,031
At 31 December 2017	**588,882**	**69,298**	**841,275**	**731,805**	**508,087**	**252,673**	**131,520**	**484,587**	**1,176,291**	**78,933**	**4,863,351**
Individual impairment	541,002	-	792,508	708,705	345,723	240,206	449	38,299	917,763	19,988	3,604,643
Collective impairment	47,880	69,298	48,767	23,100	162,364	12,467	131,071	446,288	258,528	58,945	1,258,708
	588,882	**69,298**	**841,275**	**731,805**	**508,087**	**252,673**	**131,520**	**484,587**	**1,176,291**	**78,933**	**4,863,351**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,049,703**	**–**	**1,010,943**	**1,109,031**	**1,217,730**	**479,852**	**49,890**	**274,782**	**1,790,144**	**1,005,311**	**7,987,386**

9. Loans and advances to customers (continued)

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

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

In thousand Armenian drams	***2017***	***2016***
Consumer loans to individuals	43,137,483	31,428,298
Mortgage	28,612,812	20,706,198
Trading	23,146,111	16,181,097
Transport and communication	17,701,045	18,626,511
Services	14,596,980	8,234,515
Energy	7,699,388	4,961,672
Agriculture (including loans to individuals)	7,012,168	4,621,160
Manufacturing	6,364,056	3,815,017
Construction	6,100,247	5,148,382
Other	15,660,561	9,856,170
	170,030,851	**123,579,020**
Less allowance for loan impairment	(4,863,351)	(4,554,196)
Total loans and advances to customers	**165,167,500**	**119,024,824**

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

In thousand Armenian drams	***2017***	***2016***
Privately held companies	90,043,273	66,469,244
Individuals	72,186,041	52,380,174
Sole proprietors	6,839,679	4,025,290
State owned enterprises	960,399	701,676
Non-commercial institutions	1,459	2,636
	170,030,851	**123,579,020**
Less allowance for loan impairment	(4,863,351)	(4,554,196)
Total loans and advances to customers	**165,167,500**	**119,024,824**

9. Loans and advances to customers (continued)

Loans to individuals comprise the following products:

In thousand Armenian drams	*2017*	*2016*
Mortgage loans	28,612,812	20,706,198
Credit card loans	20,343,418	15,524,600
Consumer loans	15,074,791	8,969,962
Gold loans	7,420,891	6,593,907
Agriculture	391,985	243,646
Car loans	298,382	339,898
Other	43,762	1,963
Total loans and advances to individuals (gross)	**72,186,041**	**52,380,174**

The finance lease receivables represent:

In thousand Armenian drams	*2017*	*2016*
Gross investment in finance lease, receivable		
Not later than 1 year	254,216	182,001
1-5 years	80,438	140,806
More than 5 years	5,580	–
	340,234	**322,807**
Unearned future finance income on finance lease	(24,077)	(26,600)
Net investment in financial lease, before impairment allowance	**316,157**	**296,207**
Impairment allowance	(237,461)	(181,184)
Net investment in finance lease	**78,696**	**115,023**

The estimated fair value of loans and advances to customers as at 31 December 2017 and 31 December 2016 are disclosed in Note 34.

Maturity analysis of loans and advances to customers are disclosed in Note 37.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 38. The information on related party balances is disclosed in Note 33.

10. Investment securities available for sale

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

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.

10. Investment securities available for sale (continued)

Available for sale debt securities by effective interest rates and maturity date comprise:

	2017		*2016*	
In thousand Armenian drams	*%*	*Maturity*	*%*	*Maturity*
RA government bonds	4.76-18.35	2018-2047	4.76-18.35	2017-2036
RA corporate bonds	3.83-12.63	2018-2022	6.46-12.34	2017-2019
Corporate bonds of OECD countries	8.62-8.63	2020	–	–

11. Securities pledged under repurchase agreements

In thousand Armenian drams	2017	*2016*
RA government bonds	3,056,113	–
Total securities pledged under repurchase agreements	**3,056,113**	**–**

The pledged securities are investment securities available for sale pledged under repurchase agreements with one Armenian bank, with the right to sell or re-pledge by the counterparty. All the agreements have maturity within one month (Note 17).

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

12. Held-to-maturity investments

In thousand Armenian drams	*2017*	*2016*
RA Government bonds	346,140	–
Total held-to-maturity investments	**346,140**	**–**

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

	2017		*2016*	
In thousand Armenian drams	*%*	*Maturity*	*%*	*Maturity*
RA Government bonds	4.78-6.24	2018	–	–

13. Property, plant and equipment

In thousand Armenian drams	***Land and buildings***	***Fixtures and fittings***	***Vehicles***	***Computers and communi-cation equipment***	***Other fixed assets***	***Leasehold improve-ments***	***Total***
Revalued amount or cost							
As at 1 January 2016	**5,361,547**	**732,794**	**208,357**	**2,656,802**	**719,264**	**956,474**	**10,635,238**
Additions	19,823	21,008	270	284,535	35,000	9,133	**369,769**
Disposals	(56,143)	(544)	–	(4,646)	(12,861)	(170)	**(74,364)**
Effect of revaluation	(191,209)	–	–	–	–	–	**(191,209)**
As at 31 December 2016	**5,134,018**	**753,258**	**208,627**	**2,936,691**	**741,403**	**965,437**	**10,739,434**
Additions	103	31,317	6,025	414,507	108,028	178,026	**738,006**
Disposals	(217,103)	(33,375)	(4,000)	(34,391)	(35,940)	(71,191)	**(396,000)**
As at 31 December 2017	**4,917,018**	**751,200**	**210,652**	**3,316,807**	**813,491**	**1,072,272**	**11,081,440**
Accumulated depreciation							
As at 1 January 2016	**210,665**	**567,181**	**169,575**	**2,100,103**	**544,549**	**430,705**	**4,022,778**
Depreciation charge	186,575	67,079	23,779	273,744	63,161	125,024	**739,362**
Disposals	–	(151)	–	(3,746)	(6,336)	–	**(10,233)**
Effect of revaluation	(397,240)	–	–	–	–	–	**(397,240)**
As at 31 December 2016	**–**	**634,109**	**193,354**	**2,370,101**	**601,374**	**555,729**	**4,354,667**
Depreciation charge	197,005	58,625	12,935	285,869	67,782	108,884	**731,100**
Disposals	(4,217)	(33,371)	(222)	(32,150)	(21,136)	(28,518)	**(119,614)**
As at 31 December 2017	**192,788**	**659,363**	**206,067**	**2,623,820**	**648,020**	**636,095**	**4,966,153**
Carrying value							
As at 1 January 2016	**5,150,882**	**165,613**	**38,782**	**556,699**	**174,715**	**525,769**	**6,612,460**
As at 31 December 2016	**5,134,018**	**119,149**	**15,273**	**566,590**	**140,029**	**409,708**	**6,384,767**
As at 31 December 2017	**4,724,230**	**91,837**	**4,585**	**692,987**	**165,471**	**436,177**	**6,115,287**

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 recognised under the historic cost method is AMD 737,210 thousand as at 31 December 2017 (2016: AMD 931,932 thousand).

Fully depreciated items

As at 31 December 2017 property, plant and equipment included fully depreciated assets in amount of AMD 2,778,877 thousand (2016: 2,200,044 thousand).

Property, plant and equipment in the phase of installation

As at 31 December 2017 property, plant and equipment included assets in the phase of installation in amount of AMD 137,069 thousand (2016: AMD 139,395 thousand).

Restrictions on title of property, plant and equipment

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

14. Intangible assets

In thousand Armenian drams	***Licenses***	***Computer software***	***Other***	***Total***
Cost				
As at 1 January 2016	**669,272**	**60,366**	**67,315**	**796,953**
Additions	16,014	1,200	11,919	**29,133**
As at 31 December 2016	**685,286**	**61,566**	**79,234**	**826,086**
Additions	29,605	5,250	93,600	**128,455**
As at 31 December 2017	**714,891**	**66,816**	**172,834**	**954,541**
Accumulated amortisation				
As at 1 January 2016	**539,380**	**37,469**	**33,096**	**609,945**
Amortisation charge	62,230	4,001	10,108	**76,339**
As at 31 December 2016	**601,610**	**41,470**	**43,204**	**686,284**
Amortisation charge	31,426	2,998	7,295	**41,719**
As at 31 December 2017	**633,036**	**44,468**	**50,499**	**728,003**
Carrying value				
As at 1 January 2016	**129,892**	**22,897**	**34,219**	**187,008**
As at 31 December 2016	**83,676**	**20,096**	**36,030**	**139,802**
As at 31 December 2017	**81,855**	**22,348**	**122,335**	**226,538**

Fully amortized items

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

15. Repossessed assets

Details of assets obtained by the Group by taking possession of collateral held as security against loans and advances as at 31 December 2017 are shown below:

In thousand Armenian drams	***2017***	***2016***
Land and buildings	1,807,659	2,353,995
Vehicles	11,000	17,000
Other	13,460	14,654
Total repossessed assets	**1,832,119**	**2,385,649**

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell. During 2017 impairment loss on repossessed assets in amount of AMD 58,078 thousand was recognised (2016: AMD 100,563 thousand).

16. Other assets

In thousand Armenian drams	***2017***	***2016***
Accounts receivable	416,024	325,778
Receivables from unsettled transactions	355,454	21,011
Receivables on cash transfers	7,004	14,116
Total other financial assets	**778,482**	**360,905**
Less allowance for impairment of financial assets	(43,421)	(59,174)
Total net other financial assets	**735,061**	**301,731**
Precious metals	444,766	205,035
Other prepaid taxes	342,867	40,006
Materials	239,255	223,816
Prepayments to suppliers	195,129	67,792
Unamortized insurance premium	44,994	29,479
Settlements with employees	267	1,645
Other	1,865	1,865
Total non-financial assets	**1,269,143**	**569,638**
Total other assets	**2,004,204**	**871,369**

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

In thousand Armenian drams	***Total***
As at 1 January 2016	**45,203**
Charge for the year	36,567
Amounts written off	(22,596)
As at 31 December 2016	**59,174**
Charge for the year	66,561
Amounts written off	(82,314)
As at 31 December 2017	**43,421**

17. Amounts due to banks

In thousand Armenian drams	***2017***	***2016***
Loans from banks	12,004,512	–
Repurchase agreements with banks	2,900,619	–
Correspondent accounts of other banks	143,170	224,626
Other amounts	125,166	53,438
Total amounts due to banks	**15,173,467**	**278,064**

As at 31 December 2017 the Group has loans from four banks (2016: nil).

As at 31 December 2017 the Group has repurchase agreements with 1 bank (2016: nil). The agreements were collateralized by RA government bonds with fair value of AMD 3,056,113 thousand (Note 11).

As at 31 December 2017 86% of correspondent accounts of other banks are concentrated within two counterparties (2016: 54%).

18. Derivative financial liabilities

	2017			***2016***		
In thousand Armenian drams	***Notional amount***	***Fair value of assets***	***Fair value of liabilities***	***Notional amount***	***Fair value of assets***	***Fair value of liabilities***
Derivatives held for trading						
Swaps – foreign currency	7,628,876	–	68,857	3,396,500	–	31,591
Total derivative liabilities	**7,628,876**	**–**	**68,857**	**3,396,500**	**–**	**31,591**

19. Amounts due to customers

In thousand Armenian drams	*2017*	*2016*
Corporate customers		
Current/settlement accounts	42,525,666	28,074,163
Time deposits	54,625,403	40,806,476
	97,151,069	**68,880,639**
Retail customers		
Current/settlement accounts	24,815,673	20,765,490
Time deposits	51,947,415	50,034,088
	76,763,088	**70,799,578**
Total amounts due to customers	**173,914,157**	**139,680,217**

As at 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. The fair value of those deposits approximates their carrying amount.

As at 31 December 2017 the aggregate balance due to top ten customers of the Group amounts to AMD 78,683,050 thousand (2016: AMD 65,612,790 thousand) or 45.2% of total customer accounts (2016: 47.0%).

20. Taxation

The corporate income tax expense comprises:

In thousand Armenian drams	*2017*	*2016*
Current tax charge	990,049	409,468
Adjustments of current income tax of previous years	(86,187)	(35,072)
Deferred tax (credit)/charge – origination and reversal of temporary differences	(104,024)	(430,838)
Total income tax expense/(benefit)	**799,838**	**(56,442)**

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:

In thousand Armenian drams	*2017*	*2016*
Profit before tax	**4,355,884**	**1,508,590**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**871,177**	**301,718**
Non-deductible expenses	14,848	149,362
Adjustments of current income tax of previous years	(86,187)	(35,072)
Deferred tax assets recognised due to increase of estimated tax base of PPE in 2016 (see below)	–	(472,450)
Income tax expense/(benefit)	**799,838**	**(56,442)**

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

20. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2017 and 2016 and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	Balance 1 January 2016	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2016*	*In the statement of profit or loss*	*In other compre-hensive income*	*Balance 31 December 2017*
Other liabilities	35,556	5,607	–	41,163	70,672	–	111,835
Repossessed assets	19,096	20,113	–	39,209	11,616	–	50,825
Total deferred tax assets	**54,652**	**25,720**	**–**	**80,372**	**82,288**	**–**	**162,660**
Loans and advances to customers	(504,846)	(121,430)	–	(626,276)	22,157	–	(604,119)
Securities available for sale	(80,482)	–	(256,994)	(337,476)	–	(201,646)	(539,122)
Property, plant and equipment	(719,730)	507,340	(42,754)	(255,144)	31,841	–	(223,303)
Other assets	6,254	20,936	–	27,190	(31,273)	–	(4,083)
Amounts due to customers	(79)	(1,728)	–	(1,807)	(989)	–	(2,796)
Total deferred tax liabilities	**(1,298,883)**	**405,118**	**(299,748)**	**(1,193,513)**	**21,736**	**(201,646)**	**(1,373,423)**
Net deferred tax liabilities	**(1,244,231)**	**430,838**	**(299,748)**	**(1,113,141)**	**104,024**	**(201,646)**	**(1,210,763)**

21. Debt securities issued

In thousand Armenian drams	*2017*	*2016*
Domestic bonds issued	5,931,969	–
Total debt securities issued	**5,931,969**	**–**

During the second quarter of 2017 the Bank registered Prospectus in Central Bank of Armenia for issuing USD and AMD denominated bonds in total nominal amount of USD 10,000,000 and AMD 1,000,000 thousand respectively.

During the second quarter of 2017 the Bank issued and placed USD denominated bonds with nominal amount of USD 6,000,000 in Armenia with maturity in 2019. As at 31 December 2017 carrying value of the bonds is AMD 2,930,682 thousand.

During the third quarter of 2017 the Bank issued and placed AMD bonds with nominal amount of AMD 1,000,000 thousand in Armenia with maturity in 2019. As at 31 December 2017 carrying value of the bonds is AMD 1,043,438 thousand.

During the fourth quarter of 2017 the Bank issued and placed USD bonds with nominal amount of USD 4,000,000 in Armenia with maturity in 2019. As at 31 December 2017 carrying value of the bonds is AMD 1,957,849 thousand.

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

22. Other borrowed funds

In thousand Armenian drams	*2017*	*2016*
Loans from refinancing credit organizations.	6,216,391	3,762,757
Loans from CBA	5,117,959	3,977,980
Loans from international financial organizations	1,271,923	1,331,482
Loans from Government of the RA	53,077	23,989
Total other borrowed funds	**12,659,350**	**9,096,208**

22. Other borrowed funds (continued)

As at 31 December 2017 Loans from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

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

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

Covenants

As at 31 December 2017 the Group was in compliance with all debt covenants. As at 31 December 2016 the Group breached certain covenants under the loan agreement with the European Bank of Development and Reconstruction (EBRD). The Group did not obtain a waiver from the EBRD, therefore as at 31 December 2016 the loans amounting to AMD 1,331,482 from EBRD were classified as "Within one year" in maturity analysis in Note 37 and "Demand and less than 1 month" in liquidity risk analysis in Note 38.

23. Other liabilities

In thousand Armenian drams	***2017***	***2016***
Due to personnel	600,445	193,719
Accounts payables	343,221	205,996
Total other financial liabilities	**943,666**	**399,715**
Tax payable, other than income tax	360,502	404,649
Grants related to assets	26,008	28,432
Other	6,697	8,688
Total other non-financial liabilities	**393,207**	**441,769**
Total other liabilities	**1,336,873**	**841,484**

Grants related to assets

In thousand Armenian drams	***2017***	***2016***
As at 1 January	**28,432**	**30,856**
Recognition of income (Note 30)	(2,424)	(2,424)
As at 31 December	**26,008**	**28,432**

24. Subordinated debt

In thousand Armenian drams	***2017***	***2016***
Subordinated debt provided by related party	5,854,396	7,598,818
	5,854,396	**7,598,818**

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 (2016: 6.87%) with contractual maturity on January 2023 for all agreements (See Note 37).

25. Equity

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

The share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each (2016: 54,722 ordinary shares and 333 privileged shares).

25. Equity (continued)

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

	2017		*2016*	
In thousand Armenian drams	***Paid-in share capital***	***% of total paid-in capital***	***Paid-in share capital***	***% of total paid-in capital***
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	–	33	–
HayPost Trust Management B.V. Company	2,307,900	14.06	2,307,900	14.06
The Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin	820,800	5.00	820,800	5.00
	16,416,633	**100**	**16,416,633**	**100**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

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

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

26. 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.

26. Contingent liabilities and commitments (continued)

Loan commitment, guarantee and other financial facilities (continued)

As at 31 December 2017 the nominal or contract amounts were:

In thousand Armenian drams	*2017*	*2016*
Undrawn loan commitments	10,248,879	6,051,046
Guarantees	3,232,716	3,516,421
Letters of credit	58,010	1,787,858
Total commitments and contingent liabilities	**13,539,605**	**11,355,325**

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

Operating lease commitments – Group as a lessee

In the normal course of business the Group enters into lease agreements for buildings and premises.

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

In thousand Armenian drams	*2017*	*2016*
Not later than 1 year	579,847	461,427
1-5 years	1,952,989	1,124,462
Later than 5 years	2,398,534	789,268
Total operating lease commitments	**4,931,370**	**2,375,157**

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of more than 5 years, with an option to renew the lease after that date. As at 31 December 2017 operating leases include rentals from related parties amounting to AMD 255,520 thousand (2016: AMD 92,058 thousand).

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 vehicles (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.

27. Interest income and expenses

In thousand Armenian drams	*2017*	*2016*
Loans and advances to customers	15,613,398	12,246,696
Debt securities available-for-sale	1,867,749	1,206,518
Amounts due from banks	104,165	400,786
Held to maturity investments	21,458	–
Other interest income	17,483	5,656
Total interest income	**17,624,253**	**13,859,656**
Amounts due to customers	6,855,003	5,468,707
Other borrowed funds	819,192	808,286
Subordinated debt	404,862	473,964
Amounts due to banks	31,174	36,802
Debt securities issued	173,838	–
Total interest expense	**8,284,069**	**6,787,759**

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

28. Fee and commission income and expenses

In thousand Armenian drams	***2017***	***2016***
Plastic cards operations	947,367	840,208
Wire transfer fees	722,044	567,315
Settlement operations	487,114	327,716
Guarantees and letters of credit	43,690	53,267
Other	232,930	215,134
Total fee and commission income	**2,433,145**	**2,003,640**
Plastic cards operations	524,870	468,958
Wire transfer fees	100,136	94,081
Settlement operations	91,569	171,014
Guarantees and letters of credit	5,015	681
Other expenses	30,714	28,995
Total fee and commission expense	**752,304**	**763,729**

29. Net trading income

In thousand Armenian drams	***2017***	***2016***
Net gains from foreign currency transactions	1,387,360	1,634,306
Net gain from trading securities	45,861	36,940
Net loss on derivative financial instruments	(153,567)	(772,190)
Total net trading income	**1,279,654**	**899,056**

30. Other income

In thousand Armenian drams	***2017***	***2016***
Fines and penalties received	589,407	781,173
Net income from operations with precious metals	110,193	5,759
Income from cash collection services	31,812	33,489
Dividend income	4,127	4,469
Income from grants	2,424	2,424
Other income	172,149	116,532
Total other income	**910,112**	**943,846**

31. Personnel expenses

In thousand Armenian drams	***2017***	***2016***
Salaries	4,250,933	3,346,119
Other expenses	47,856	33,141
Total personnel expenses	**4,298,789**	**3,379,260**

32. Administrative and other operating expenses

In thousand Armenian drams	***2017***	***2016***
Operating lease	507,801	476,212
Advertising costs	315,430	382,922
Software maintenance expenses	261,194	207,474
Insurance of deposits	231,003	137,746
Security	205,518	191,309
Expenses related to Armenian Card payment system	174,557	150,881
Communications	133,030	129,409
Fixed assets maintenance	125,906	103,686
Utility expenses	105,771	104,938
Insurance expenses	100,583	92,605
Consulting and other services	72,333	103,599
Office supplies	40,745	47,084
Taxes, other than income tax, duties	35,006	30,587
Business trip expenses	24,020	18,417
Financial system mediator payments	18,887	16,006
Penalties paid	3,891	4,866
Loss from disposal of fixed assets	1,450	–
Loss from revaluation of land and buildings	–	7,738
Other operating expenses	142,303	94,369
Other administrative expenses	316,011	323,297
	2,815,439	**2,623,145**

33. 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 the Parent, entities under common control, members of Group's Management as well as other persons and enterprises related with and controlled by them respectively. The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

33. Transaction with related parties (continued)

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2017			*2016*		
In thousand Armenian drams	***Parent***	***Entities under common control***	***Key management personnel and their close family members***	***Parent***	***Entities under common control***	***Key management personnel and their close family members***
Consolidated statement of financial position						
Loans and advances to customers						
Loans outstanding at 1 January, gross	**4,811**	**28,951,581**	**177,661**	**12,874**	**4,150,912**	**244,030**
Loans issued during the year	92,282	26,081,083	823,174	98,578	55,366,239	544,808
Loan repayments during the year	(78,056)	(27,568,976)	(605,833)	(106,641)	(30,565,570)	(611,177)
Loans outstanding at 31 December, gross	**19,037**	**27,463,688**	**395,002**	**4,811**	**28,951,581**	**177,661**
Less: allowance for loan impairment	(190)	(274,637)	(3,950)	(48)	(289,516)	(1,777)
Loans outstanding as of 31 December, net	**18,847**	**27,189,051**	**391,052**	**4,763**	**28,662,065**	**175,884**
Amounts due to customers						
Deposits at 1 January	**348,105**	**38,802,129**	**167,545**	**114,430**	**28,014,157**	**100,227**
Deposits received during the year	1,022,935	622,429,078	3,968,001	14,857,283	675,611,740	3,300,673
Deposits repaid during the year	(1,003,421)	(623,789,304)	(3,726,476)	(14,623,608)	(664,823,768)	(3,233,355)
Deposits as of 31 December	**367,619**	**37,441,903**	**409,070**	**348,105**	**38,802,129**	**167,545**
Amounts due to customers – subordinated debt						
Subordinated debt at 1 January	**–**	**7,598,818**	**–**	**–**	**7,430,709**	**–**
Subordinated debt received during the year	–	–	–	–	338,758	–
Subordinated debt repaid during the year	–	(1,748,435)	–	–	–	–
Net result from FX revaluation	–	4,013	–	–	(170,649)	–
Subordinated debt as of 31 December	**–**	**5,854,396**	**–**	**–**	**7,598,818**	**–**
Items not recognised in the consolidated statement of financial position						
Guarantees given	–	283,558	140,044	–	291,723	36,116
Consolidated statement of comprehensive income						
Interest income	–	2,227,176	13,510	–	1,198,588	15,493
Fee and commission income	702	24,965	660	431	19,576	784
Other income	1,300	61,251	910	2,190	105,412	1,362
Interest expense	(3,771)	(2,285,300)	(15,985)	(18,641)	(1,417,551)	(9,382)
Impairment charge	(142)	14,879	(2,173)	81	(248,007)	663
Other expenses	–	(43,109)	(28,601)	(8,660)	(51,908)	(29,465)

The loans issued to key management personnel (and close family members) have maturity from 1 year to 20 years (2016: from 1 year to 20 years) and interest rates of 6-21% (2016: 6-22%), loans issued to other related parties have maturity from 1 year to 20 years (2016: from 1 year to 20 years) and interest rates of 7-20% (2016: 7-22%). The loans are collateralised by gold, real estate, cash and other assets.

Deposits of key management personnel (and close family members) have maturity from 1 year to 4 years (2016: from 1 year to 2 years) and have interest rates of 4-14% (2016: 6-15%), deposits of other related parties have maturity from 1 year to 2 years (2016: from 1 year to 13 years) and have interest rates of 3-13% (2016: 6-15%).

33. Transaction with related parties (continued)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	*2017*	*2016*
Salaries and other short-term benefits	494,746	405,774
Total key management compensation	**494,746**	**405,774**

34. Fair value measurement

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are not measured at fair value

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

			2017		
In thousand Armenian drams	*Level 1*	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Loans and advances to customers	–	–	151,021,736	**151,021,736**	**165,167,500**
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**
Held to maturity investments	–	–	346,127	**346,127**	**346,140**
Other financial assets	–	–	735,061	**735,061**	**735,061**
Financial liabilities					
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**
Debt securities issued	–	5,952,200	–	**5,952,200**	**5,931,969**
Subordinated debt	–	–	5,854,396	**5,854,396**	**5,854,396**
Other financial liabilities	–	–	943,666	**943,666**	**943,666**

34. Fair value measurement (continued)

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

	2016				
In thousand Armenian drams	***Level 1***	***Level 2***	***Level 3***	***Total fair values***	***Total carrying amount***
Financial assets					
Loans and advances to customers	–	–	110,355,038	**110,355,038**	**119,024,824**
Cash and cash equivalents	44,751,939	–	–	**44,751,939**	**44,751,939**
Amounts due from banks	–	–	2,320,882	**2,320,882**	**2,320,882**
Other financial assets	–	–	301,731	**301,731**	**301,731**
Financial liabilities					
Amounts due to customers	–	–	139,680,217	**139,680,217**	**139,680,217**
Other borrowed funds	–	–	9,096,208	**9,096,208**	**9,096,208**
Subordinated debt	–	–	7,598,818	**7,598,818**	**7,598,818**
Other financial liabilities	–	–	399,715	**399,715**	**399,715**
Amounts due to banks	–	–	278,064	**278,064**	**278,064**

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 7% to 24% per annum (2016: 8% to 24% per annum).

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

Financial instruments that are measured at fair value

	2017		
In thousand Armenian drams	***Level 1***	***Level 2***	***Total***
Financial assets			
Securities pledged under repurchase agreements	–	3,056,113	**3,056,113**
Investments available for sale	883,076	21,871,348	**22,754,424**
Trading securities	–	787,330	**787,330**
Total	**883,076**	**25,714,791**	**26,597,867**
Financial liabilities			
Derivative financial liabilities	–	68,857	**68,857**
Total	**–**	**68,857**	**68,857**
Net fair value	**883,076**	**25,645,934**	**26,529,010**

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

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

34. Fair value measurement (continued)

Financial instruments that are measured at fair value (continued)

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 10 for further information about this equity investments.

Fair value measurement of non-financial assets and liabilities

	2017	
In thousand Armenian drams	*Level 3*	*Total*
Non financial assets		
Land and buildings	4,724,230	**4,724,230**
Total	**4,724,230**	**4,724,230**

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

Fair value measurements in Level 3

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

In thousand Armenian drams	*Land and buildings*	*Total*
Non financial assets		
Balance as at 1 January 2017	5,134,018	**5,134,018**
Purchases	103	**103**
Disposals	(212,886)	**(212,886)**
Depreciation charge	(197,005)	**(197,005)**
Net fair value at 31 December 2017	**4,724,230**	**4,724,230**

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

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

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

34. Fair value measurement (continued)

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

There was no revaluation of the land and buildings during 2017. The land and buildings were previously revalued on 31 December 2016.

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.

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

Transferred financial assets that are not derecognised in their entirety

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 derecognised them. In addition, it recognised a financial liability for cash received.

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

As at 31 December 2017 the Group has securities sold under repurchase agreements amounted to AMD 3,056,113 thousand (2016: nil), which were classified as available for sale securities.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the consolidated statement of financial position as at 31 December 2017 as amounts due to banks with carrying amount of AMD 2,900,619 thousand.

36. Offsetting of financial instruments

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

				Related amounts not offset in the consolidated statement of financial position		
In thousand Armenian drams	***Gross amount of recognised financial assets***	***Gross amount of recognised financial liabilities set off in the consolidated statement of financial position***	***Net amount of financial assets recognised in the consolidated statement of financial position***	***Financial instruments***	***Non-Cash collateral received***	***Net amount***
2017						
Financial assets						
Loans and advances to banks – reverse repo	7,025,413	–	7,025,413	–	(7,025,413)	–
Loans and advances to customers – reverse repo	4,820,511	–	4,820,511	–	(4,820,511)	–
Total	**11,845,924**	**–**	**11,845,924**	**–**	**(11,845,924)**	**–**
Financial liabilities						
Amounts due to banks – repo	2,900,619	–	2,900,619	(2,900,619)	–	–
Total	**2,900,619**	**–**	**2,900,619**	**(2,900,619)**	**–**	**–**

36. Offsetting of financial instruments (continued)

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

37. 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 38 for the Group's contractual undiscounted repayment obligations.

In thousand Armenian drams	***2017***			***2016***		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	39,842,049	–	**39,842,049**	44,751,939	–	**44,751,939**
Trading securities	14,713	772,617	**787,330**	5,080	179,753	**184,833**
Amounts due from banks	9,014,185	1,532,170	**10,546,355**	1,043,316	1,277,566	**2,320,882**
Loans and advances to customers	64,318,196	100,849,304	**165,167,500**	61,217,503	57,807,321	**119,024,824**
Investments available for sale	1,949,125	20,863,093	**22,812,218**	577,781	14,351,424	**14,929,205**
Securities pledged under repurchase agreements	3,056,113	–	**3,056,113**	–	–	**–**
Held-to-maturity investments	346,140	–	**346,140**	–	–	**–**
Property, plant and equipment	–	6,115,287	**6,115,287**	–	6,384,767	**6,384,767**
Intangible assets	–	226,538	**226,538**	–	139,802	**139,802**
Repossessed assets	1,832,119	–	**1,832,119**	2,385,649	–	**2,385,649**
Other assets	1,982,559	21,645	**2,004,204**	645,320	226,049	**871,369**
Total	**122,355,199**	**130,380,654**	**252,735,853**	**110,626,588**	**80,366,682**	**190,993,270**
Liabilities						
Amounts due to banks	15,100,852	72,615	**15,173,467**	205,473	72,591	**278,064**
Derivative liabilities	68,857	–	**68,857**	31,591	–	**31,591**
Amounts due to customers	148,295,966	25,618,191	**173,914,157**	133,818,864	5,861,353	**139,680,217**
Other borrowed funds	1,964,472	10,694,878	**12,659,350**	2,725,870	6,370,338	**9,096,208**
Debt securities issued	90,969	5,841,000	**5,931,969**	–	–	**–**
Current income tax liabilities	609,855	–	**609,855**	175,744	–	**175,744**
Deferred income tax liabilities	–	1,210,763	**1,210,763**	–	1,113,141	**1,113,141**
Other liabilities	1,310,863	26,010	**1,336,873**	436,835	404,649	**841,484**
Subordinated debt	–	5,854,396	**5,854,396**	1,739,946	5,858,872	**7,598,818**
Total	**167,441,834**	**49,317,853**	**216,759,687**	**139,134,323**	**19,680,944**	**158,815,267**
Net position	**(45,086,635)**	**81,062,801**	**35,976,166**	**(28,507,735)**	**60,685,738**	**32,178,003**

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

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

38. Risk management

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

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

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

Risk management structure

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

The Board

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

Direction

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

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

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

Risk management division

The main functions of the risk management division are:

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

38. Risk management (continued)

Risk management structure (continued)

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

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

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

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

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

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

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

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

38. Risk management (continued)

Risk management structure (continued)

Excessive risk concentrations

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

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

Credit risk

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

As at 31 December 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 regions as at 31 December 2017 and 31 December 2016.

In thousand Armenian drams	***Armenia***	***Other non-OECD countries***	***OECD countries***	***Total***
Cash and cash equivalents	37,825,148	1,460,198	556,703	**39,842,049**
Trading securities	787,330	–	–	**787,330**
Amounts due from banks	9,502,670	285,730	757,955	**10,546,355**
Loans and advances to customers	142,405,903	6,205,348	16,556,249	**165,167,500**
Investments available for sale	21,800,747	–	1,011,471	**22,812,218**
Securities pledged under repurchase agreements	3,056,113	–	–	**3,056,113**
Held-to-maturity investments	346,140	–	–	**346,140**
Other financial assets	509,445	265	225,351	**735,061**
As at 31 December 2017	**216,233,496**	**7,951,541**	**19,107,729**	**243,292,766**

In thousand Armenian drams	***Armenia***	***Other non-OECD countries***	***OECD countries***	***Total***
Cash and cash equivalents	43,719,886	156,599	875,454	**44,751,939**
Trading securities	184,833	–	–	**184,833**
Amounts due from banks	1,569,380	173,042	578,460	**2,320,882**
Loans and advances to customers	92,934,554	15,863,791	10,226,479	**119,024,824**
Investments available for sale	14,312,559	–	616,646	**14,929,205**
Other financial assets	132,634	84	169,013	**301,731**
As at 31 December 2016	**152,853,846**	**16,193,516**	**12,466,052**	**181,513,414**

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

38. Risk management (continued)

Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

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

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

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

In thousand Armenian drams	***2017***	***2016***
Loans collateralized by real estate	82,040,110	58,061,771
Loans collateralized by cash	35,148,213	27,221,417
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 securities	5,541,894	1,513,789
Loans collateralized by equipment	3,300,657	1,485,529
Loans collateralized by vehicles	2,320,430	1,977,955
Loans collateralized by inventories	676,734	896,863
Other collateral	7,230,345	5,155,737
Unsecured loans	11,438,319	7,885,131
Total loans and advances to customers (gross)	**170,030,851**	**123,579,020**

The amounts presented in the table above are carrying values of the loans, and do not 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 8,634,264 thousand (2016: AMD 8,147,725 thousand).

38. Risk management (continued)

Risk limit control and mitigation policies (continued)

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

38. Risk management (continued)

Impairment and provisioning policies (continued)

Loans and advances neither past due or impaired

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

	Neither past due nor impaired			*Past due but not individually impaired*	*Individually impaired*	*Total*
In thousand Armenian drams	*High grade*	*Standard grade*	*Sub-standard grade*			
31 December 2017						
Loans and advances to customers	35,148,213	125,750,079	–	1,145,173	7,987,386	**170,030,851**

	Neither past due nor impaired			*Past due but not individually impaired*	*Individually impaired*	*Total*
In thousand Armenian drams	*High grade*	*Standard grade*	*Sub-standard grade*			
31 December 2016						
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 past due but not individually impaired. Analysis of past due loans by age and by class is provided below.

	2017				
In thousand Armenian drams	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 91 days*	*Total*
Loans and advances to customers					
Manufacture	–	10,016	5,296	14,672	**29,984**
Agriculture	186	2,638	4,788	26,842	**34,454**
Construction	909	–	–	–	**909**
Trade	–	–	14,196	14,923	**29,119**
Transport and communication	–	–	–	12,014	**12,014**
Consumer loans to individuals	191,801	131,696	72,872	311,736	**708,105**
Mortgage	28,088	66,224	17,632	214,449	**326,393**
Other sectors	–	–	–	4,195	**4,195**
Total	**220,984**	**210,574**	**114,784**	**598,831**	**1,145,173**

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

38. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses.

Interest rate risk

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

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

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

In thousand Armenian drams	***Increase in basis points 2017***	***Sensitivity of profit and loss 2017***	***Sensitivity of equity 2017***
Currency			
AMD	1.6%	(48,646)	(701,721)
USD	1.3%	–	(230,585)

In thousand Armenian drams	***Decrease in basis points 2017***	***Sensitivity of profit and loss 2017***	***Sensitivity of equity 2017***
Currency			
AMD	3.5%	106,414	1,535,014
USD	0.5%	–	88,686

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

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

38. Risk management (continued)

Currency risk

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

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

	2017		***2016***	
In thousand Armenian drams	***Change in currency rate in %***	***Effect on profit before tax***	***Change in currency rate in %***	***Effect on profit before tax***
Currency				
USD	3.5%	(23,270)	6%	(34,858)
USD	-3.5%	23,270	(6%)	34,858
EUR	13.7%	1,535	11%	377
EUR	-6.3%	(706)	(11%)	(377)

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 Group denominated in Armenian drams and 18% on certain obligations of the Group denominated in foreign currency. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Group calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia. As at 31 December, these ratios were as follows:

	Threshold	***2017, %***	***2016, %***
N21 "General Liquidity Ratio" (highly liquid assets / total assets)	min 15%	35.26	39.01
N22 "Current Liquidity Ratio" (highly liquid assets / liabilities payable on demand)	min 60%	102.49	116.23

38. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. See Note 37 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.

	2017					
In thousand Armenian drams	***Demand and less than 1 month***	***From 1 to 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Financial liabilities						
Amounts due to banks	13,463,293	–	1,674,272	–	72,615	**15,210,180**
Derivative liabilities	68,857	–	–	–	–	**68,857**
Amounts due to customers	73,352,138	11,248,147	65,922,616	28,109,919	564,589	**179,197,409**
Other borrowed funds	132,553	227,335	1,689,991	10,212,515	3,980,126	**16,242,520**
Debt securities issued	–	52,500	321,087	6,129,507	–	**6,503,094**
Subordinated debt	–	–	–	–	7,904,560	**7,904,560**
Total undiscounted financial liabilities	**87,016,841**	**11,527,982**	**69,607,966**	**44,451,941**	**12,521,890**	**225,126,620**
Commitments and contingent liabilities	**13,539,605**	**–**	**–**	**–**	**–**	**13,539,605**

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

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

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

Operational risk

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

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

38. Risk management (continued)

Operational risk (continued)

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

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

The risk mitigation mechanisms for the process are:

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

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

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

39. Changes in liabilities arising from financing activities

In thousand Armenian drams	**Note**	***Bonds issued***	***Other borrowed funds***	***Subordinated loans***	***Total liabilities from financing activities***
Carrying amount at 31 December 2015	21, 22, 24	**–**	**9,895,217**	**7,430,709**	**17,325,926**
Proceeds from issue		–	2,154,195	343,425	**2,497,620**
Redemption		–	(1,410,854)	**–**	**(1,410,854)**
Foreign currency translation		–	(1,482,138)	(1,941)	**(1,484,079)**
Other		–	(60,212)	(173,375)	**(233,587)**
Carrying amount at 31 December 2016	21, 22, 24	**–**	**9,096,208**	**7,598,818**	**16,695,026**
Proceeds from issue		5,848,861	6,240,921	**–**	**12,089,782**
Redemption		–	(2,703,308)	(1,453,077)	**(4,156,385)**
Foreign currency translation		7,176	(12,008)	4,013	**(819)**
Other		75,932	37,537	(295,358)	**(181,889)**
Carrying amount at 31 December 2017	21, 22, 24	**5,931,969**	**12,659,350**	**5,854,396**	**24,445,715**

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

40. Capital adequacy

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

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

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

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basel Capital Accord 1988 principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2017 and 31 December 2016, this minimum level was 12%. The Group is in compliance with the statutory capital ratio as at 31 December 2017 and 31 December 2016.

The following table shows the composition of capital position calculated in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2017 and 2016:

In thousand Armenian drams	***2017***	***2016***
Tier 1 capital	29,670,418	24,379,928
Tier 2 capital	11,210,469	10,925,187
Total capital	**40,880,887**	**35,305,115**
Risk-weighted assets	**223,220,237**	**147,033,555**
Capital adequacy ratio	**18.31%**	**24.01%**

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

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