

“Converse Bank” closed joint stock company

Consolidated Financial Statements

31 March 2018

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Consolidated Statement of financial position
as at 31 March 2018
(In thousand Armenian drams)

	<i>Notes</i>	<i>31/03/2018</i>	<i>31/12/2017</i>
Assets			
Cash and cash equivalents	15	45,338,331	39,842,049
Trading securities	16	742,435	787,330
Amounts due from banks	17	11,741,318	10,546,355
Loans and advances to customers	18	155,210,767	165,167,500
Investments available for sale	19	20,062,278	22,812,218
Securities pledged under repurchase agreements	20	6,514,632	3,056,113
Held to maturity investments	21	1,348,654	346,140
Property, plant and equipment	22	6,342,859	6,115,287
Intangible assets	23	269,472	226,538
Repossessed assets	24	1,792,363	1,832,119
Other assets	25	2,180,039	2,004,204
Total assets		251,543,148	252,735,853
Liabilities			
Amounts due to banks	26	11,188,749	15,173,467
Derivative financial liabilities	27	66,963	68,857
Amounts due to customers	28	175,000,502	173,914,157
Bonds issued by the Bank	29	5,929,828	5,931,969
Current income tax liabilities		706,924	494,171
Deferred income tax liabilities	14	1,031,274	1,302,993
Other borrowed funds	30	13,768,786	12,659,350
Other liabilities	31	1,423,869	1,336,872
Other provisions	32	68,161	
Subordinated debt	33	5,905,776	5,854,396
Total liabilities		215,090,832	216,736,232
Share capital	34	16,416,633	16,416,633
Share premium		63,233	63,233
Statutory general reserve		1,243,064	1,243,064
Other reserves		5,650,962	5,352,858
Retained earnings		13,078,424	12,923,833
Total equity		36,452,316	35,999,621
Total liabilities and equity		251,543,148	252,735,853

The financial statements from pages were approved and signed by the Bank's Executive Director and Chief Accountant on April 13 2018.

Arthur Hakobyan
Chief Executive Officer- Chairman of Executive Management

Davit Azatyan
Chief accountant

**Consolidated Statement of comprehensive income
for the period ended 31 March 2018**
(In thousand Armenian drams)

	Notes	01/01/18- 31/03/18	01/01/17- 31/03/17
Interest income	7	4,859,626	3,912,097
Interest expense	7	(2,248,742)	(1,971,928)
Net interest income		2,610,884	1,940,169
Fee and commission income	8	574,504	461,175
Fee and commission expense	8	(208,690)	(137,660)
Net fee and commission income		365,814	323,515
Net trading income	9	339,683	258,605
Net (losses)/gains from foreign currency translation		(46,848)	(6,426)
Gains less losses on investments available for sale		178,456	36,471
Other income	10	272,192	245,669
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		18,205	-
Impairment losses	11	(360,319)	(489,936)
Staff costs	12	(1,140,715)	(993,260)
Depreciation of property and equipment	22	(146,024)	(182,246)
Amortization of intangible assets	23	(13,618)	(9,033)
Other expenses	13	(848,325)	(621,474)
Profit before income tax		1,229,384	502,054
Income tax expense	14	(221,368)	(107,857)
Profit for the period		1,008,016	394,197
Other comprehensive income:			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment		-	-
Income tax effect		-	-
Net other comprehensive income not be reclassified subsequently to profit or loss		-	-
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealised gains/(losses) on investment securities available-for-sale		257,074	266,721
Realised (gains)/losses on investment securities available-for-sale reclassified to the statement of profit or loss		(178,456)	(36,471)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(18,205)	-
Income tax effect		(15,724)	(28,047)
Net other comprehensive income to be reclassified subsequently to profit or loss		44,689	202,203
Other comprehensive income for the period, net of tax		44,689	202,203
Total comprehensive income for the period		1,052,705	596,400

**Consolidated Statement of cash flows for the period ended
31 March 2018
(In thousand Armenian drams)**

	01/01/2018- 31/03/2018	01/01/2017-31/03/2017
Cash flows from operating activities		
Interest received	5,715,362	3,900,408
Interest paid	(1,513,891)	(2,041,688)
Fees and commissions received	574,504	461,175
Fees and commissions paid	(208,690)	(137,660)
Net trading income received	339,683	(19,448)
Net income from FX	-	311,059
Other income received	272,192	245,669
Personnel expenses paid	(1,140,715)	(993,260)
Net income from trading securities	-	16,357
Other operating expenses paid	(848,325)	(621,474)
Cash flows from operating activities before changes in operating assets and liabilities	3,190,119	1,121,138
<i>Net (increase)/decrease in operating assets</i>		
Trading securities	44,895	234,394
Amounts due from banks	(1,063,159)	2,394,116
Loans to customers	9,270,677	(10,789,291)
Reposessed assets	39,756	4,000
Other assets	153,081	(674,834)
<i>Net increase/(decrease) in operating liabilities</i>		
Amounts due to banks	(4,098,213)	67,620
Amounts due to customers	(166,068)	12,816,230
Derivative financial liabilities	(2,515)	19,318
Other liabilities	(106,247)	(957,673)
Net cash flows from operating activities before income tax	7,262,327	4,235,019
Income tax paid	(212,753)	20,157
Net cash from / (used in) operating activities	7,049,574	4,255,176
Net cash flow from investing activities		
Purchase of AFS	(10,546,611)	(3,487,911)
Proceeds from sale of AFS securities	10,599,818	635,744
Purchase of intangible assets	(39,584)	-
Purchase of property and equipment	(326,428)	(4,658)
Proceeds from sale of property and equipment	34,101	-
Net cash from / (used in) investing activities	(278,705)	(2,856,824)
Net cash flow from financing activities		
Proceeds from issue of share capital	-	-
Receipts from other borrowed funds	(1,083,158)	61,985
Repayment of other borrowed funds	(97,928)	(1,466,223)
Repayment of subordinated loans	-	-
Dividends paid to shareholders of the Bank	-	-
Net cash from / (used in) financing activities	(1,181,086)	(1,404,238)
Net increase/(decrease) in cash and cash equivalents	5,589,784	(5,887)
Effect of exchange rates changes on cash and cash equivalents	(93,502)	(203,098)
Cash and cash equivalents, beginning	39,842,049	45,286,422
Cash and cash equivalents, ending	45,338,331	45,077,437

Consolidated Statement of changes in equity

In thousand Armenian drams	Share capital	Share premiu m	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2017 (audited)	16,416,633	63,233	1,005,996	1,365,201	3,353,126	9,973,814	32,178,003
Issue of share capital	-						-
Distribution to general reserve							-
Dividends to shareholders						-	-
Total Transactions with owners	-	-	-	-	-	-	-
Profit for the period						394,197	394,197
Other comprehensive income for the period				202,203	-		202,203
Total comprehensive income for the peiod	-	-	-	202,203	-	394,197	596,400
Depreciation of revaluation reserve	-	-	-	-	(39,271)	39,271	-
Balance as of March 31, 2017	16,416,633	63,233	1,005,996	1,567,404	3,313,855	10,407,282	32,774,403
Balance as of January 1, 2018	16,416,633	63,233	1,243,064	2,171,785	3,181,073	12,923,833	35,999,621
Impact of IFRS 9				284,213		(884,223)	(600,010)
Restated balance as of January1,2018	16,416,633	63,233	1,243,064	2,455,998	3,181,073	12,039,610	35,399,611
Issue of share capital							-
Distribution to general reserve			-			-	-
Dividends to shareholders					-	-	-
Total Transactions with owners	-	-	-	-	-	-	-
Profit for the period						1,008,016	1,008,016
Other comprehensive income for the period				44,689			44,689
Total comprehensive income for the peiod	-	-	-	44,689	-	1,008,016	1,052,705
Depreciation of revaluation reserve	-	-	-	-	(30,798)	30,798	-
Balance as of March 31, 2018	16,416,633	63,233	1,243,064	2,500,687	3,150,275	13,078,424	36,452,316

1.Principal activities

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

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

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

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

Advanced Global Investments LLC is the largest shareholder of the Group (80.94%-of shares).

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

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

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

As of 31.03.18 740 employees were hired by the parent company and 26 by it’s subsidiary.

The consolidated financial statements include the following subsidiary:

<i>Subsidiary</i>	<i>Ownership %</i>			<i>Country</i>	<i>Date of incorporation</i>		<i>Industry</i>
	<i>2016</i>	<i>2017</i>	<i>2018</i>				
“Converse Collection” LLC	100 %	100 %	100 %	Armenia	April 2000	20,	Transportation of cash, cash equivalents and other assets

2.Armenian business environment

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

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

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

Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Amendments to Accounting Policy

In these consolidated financial statements the Group has applied the revised version of IFRS 9 and IFRS 7 standards, which entered into force on January 1 2018 and is applied to reporting periods beginning on or after January 1 2018.

IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 from January 1 2018 and is applied to annual reporting periods beginning on or after January 1 2018. The Group will continue hedge accounting in compliance with IAS 39.

The Group will not redisclose the comparative information about the financial instruments for the year 2017. The differences arisen as a result of implementation of IFRS 9 were recorded in the direct retained profits and other provisions as at 01.01.2018 and were disclosed in Note 34.

Classification and Measurement Changes

IFRS 9 requires assessment of all the financial assets, except for investments in equity instruments and derivative instruments, based on a consolidated approach in terms of the business model used to manage the company’s assets and the cash flow characteristics.

The measurement categories of IAS 39 will be replaced by the following categories:

- Fair value measured through profit or loss
- Fair value measured through other comprehensive income
- Measured at amortized cost

The requirements of IAS 39 for financial liabilities accounting have not changed significantly.

Impairment Assessment Changes

IFRS 9 establishes a quite new approach to impairment of losses. This standard replaces IAS39 approach of incurred credit losses with the approach of expected credit losses (ECL). The Group has recognized the reserve of expected credit losses for all financial instruments measuring loans and receivables, which are not measured at fair value through profit or loss, as well as for credit liability agreements and financial guarantee contracts. The impairment to loss calculation was made by three stages, which reflect the credit

quality decrease of the financial instrument. The expected credit losses classified in the first stage have been estimated based on the possibility of default within the next twelve months. The expected credit losses for the instruments classified in the second stage have been estimated based on the probability of default during the period of expected repayment of the instrument. 100% default probability is defined for the instruments classified in the third stage.

Amendments to IAS 12, Income Tax

In January 2016, the IASB published the amendments to IAS 12 and clarified the accounting standards for the deferred tax assets in terms of debt instruments, which are measured at fair value for financial accounting purposes, and measured at original cost for tax accounting purposes. These amendments entered into force in January 1 2017 and are applied to reporting periods beginning on or after that date. The early application is permitted. The Group has calculated that the amendments will not have any impact on the consolidated financial statements.

Standards and Comments that are not yet applied by the Group

Hereunder are the standards and interpretations, which though have been issued, but have not yet entered into force as of the date of publishing the Group's consolidated financial statements. The Group intends to apply these standards as soon as they enter into force.

IFRS 16 Leases

The IASB has issued the new IFRS 16 "Leases" in January 2016. The new standard does not considerably change the lease accounting for the tenants. However, it requires the lessees to recognize the majority of leases as part of their lease obligations in the accounting balance, together with the right to use the relevant asset. Tenants should apply a uniform model for all recognized leases. At the same time they will have the opportunity of unrecognizing short-term leases and lease of low-cost assets. In general, recognition of profit or loss is similar to the present-day financial accounting as a separate statement of interest income and depreciation recognition in terms of profit or loss.

IFRS 16 will enter into force in January 1 2019 and will be effective for annual periods beginning on or after that date. Early application is permitted provided that the new revenue standard IFRS 15 is applied on the same date.

The Group does not plan early adoption of IFRS 16 and currently assesses its impact.

3.Summary of accounting policies (continued)

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

Basis of consolidation

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

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

3.Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

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

Net trading income

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

Operating rental income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the CBA on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official exchange rates of the CBA at 31 December 2017 and 31 December 2016 were AMD 484.1 and AMD 483.94 to USD 1,

respectively.

3.Summary of accounting policies (continued)

Taxation

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

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

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

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

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

The Republic of Armenia also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of other expenses in the consolidated statement of comprehensive income.

Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the consolidated statement of financial position.

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

Amounts due from banks

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

3. Summary of significant accounting policies (continued)

Financial Instruments:

The Group recognizes financial assets and liabilities on its balance sheet when it becomes the contracting party of the instrument. All regular purchases and sales of financial assets and liabilities are recognized at the transaction date. Regular purchases of financial instruments that are measured at fair value in the future are accounted for by the same principle in the period between the contract date and the transaction date as are accounted the acquired instruments.

The financial asset or liability is measured at fair value at initial recognition plus the directly attributable transaction costs, in the case where it is not a financial asset or a financial liability measured at fair value through profit or loss. After initial recognition, all financial liabilities, except for financial liabilities measured at fair value through profit or loss (including those held for trading purposes), are accounted at amortized cost using the effective interest method. The financial liabilities are accounted at fair value after being initially recognized at fair value through profit or loss.

After January 1, 2018, the Group classifies its financial assets based on the business model of financial assets management and the contract provisions related to cash flows of the financial asset, as follows:

- Financial assets recognized at amortized cost
- Financial assets measured through other comprehensive income;
- Financial assets measured at fair value through profit or loss;

Until January 1 2018, the Group has classified its financial assets into the following groups: loans and receivables, financial assets measured at fair value through profit or loss, financial assets available-for-sale and investments held-to-maturity.

Financial assets recognized at amortized cost

After January 1, 2018, the Group measures Cash and cash equivalents, Claims to banks, loans to Customers, receivables, securities held-to-maturity and other financial assets at amortized cost, if the following two conditions are provided:

- The asset is held within a business model, the purpose of which is to hold the assets for collecting contractual cash flows;
- the contractual terms of the financial asset give rise to cash flows on specified dates, that are solely payments of interests accrued on principal and outstanding principal amounts.

Details of the terms are mentioned below.

Business Model Assessment:

The Group classifies the financial assets as assets to be measured at amortized value or at fair value based on the Group's business model for managing financial assets. The Group evaluates whether its financial assets meet that requirement taking as a basis the purpose of the business model as determined by the Group's core management.

The group's business model does not depend on management's intentions with regard to a particular instrument. Consequently, this condition is not an instrument-to-instrument classification approach and should be determined at a higher grouping level. However, the Group may have more than one business model for managing its financial instruments.

Although the purpose of the Group's business model may be holding of the financial assets to collect contractual cash flows, the Group does not need to hold till maturity all those instruments. Thus, the Group may apply the business model of holding the financial assets to collect contractual cash flows even in case of selling the financial assets.

However, if the sales from portfolio are regular, the Group assesses whether and how such sales meet the objectives of collecting contractual cash flows.

Contractual cash flows that are solely the payments of principal and interest on the principal amount outstanding

The group classifies the financial asset as an asset to be measured at amortized cost in the future, if it meets the SPPI test (Solely Payments of Principal and Interest on the principal amount outstanding).

In the scope of this test the “Principal amount” is defined as fair value of the financial asset at its initial recognition and may be changed during the financial asset validity period.

The most important element for calculating the interests is the consideration of time value of money and credit risk.

When applying the SPPI test, the Group uses its judgments and takes into account such factors as the currency and the time period of the financial instrument for which the interest rate is set.

Loans and Accounts Receivable

Loans and accounts receivable are financial assets with fixed or determinable payments, which are created when the Group provides cash directly to the borrower without the intention to sell the debt.

The loans at fixed maturity are initially recognized at fair value, plus the costs relating to the deal. Where the fair value of the disbursed sums differ from the fair value of the loan, for instance if the loan is issued at lower-than-market interest rate, the difference between the fair values of the disbursed sum and the loan is recorded at the date of initial recognition of the loan as an expense from allocation of assets at lower-than-market rates in the P&L statement or other consolidated comprehensive financial statement. Thereafter, the loans are measured at depreciated cost by applying effective rate method. The loans issued to customers without fixed maturity are accounted at depreciated cost depending on the assumed maturity.

Cash and equivalent, claims to banks, loans issued to customers, accounts receivable, securities held to maturity, and other financial assets are deducted to the amount of expected loss from impairment.

Financial assets measured at fair value through profit or loss

Financial assets held for commercial purpose and financial assets measured at fair value – through profit or loss, are accounted in this group.

The Group classifies financial assets as those held for commercial purpose, if irrespective of the reason for their acquisition, they constitute a part of such portfolio for which an evidence exists about actual ways for earning profit in short term.

Asset and liabilities held for commercial purpose are measured at fair value based on the current market prices. All respective profit and loss are recorded in the net commercial income item of financial statements.

In the course of its regular business, and at Forex and capital markets, the Group acts as a counterparty to derivative contracts, such as futures, forwards, swaps and options. Such derivatives are classified as instruments held for commercial purpose and are initially recognized in compliance with the policies for initial recognition of financial instruments, and are further measured at fair value. The fair value is determined through market quoted prices or by applying models grounded on assessments of current market situation and contractual prices of basic instruments and other factors. Derivatives with positive value are recorded as asset and with negative value – as liability.

Derivatives contained in other financial instruments are viewed as separate derivatives, if the related risks and features are not closely connected with the risks and features of the main contracts, and if the main contracts are not recorded at fair value – through profit or loss. The contained derivative is a component of a hybrid financial instrument, which includes both the main contract and the derivative component, due to which certain cash flows from the hybrid instrument change in the same way like separate derivatives.

According to IAS 39, financial assets and liabilities containing derivatives are viewed as separate derivatives and are measured at fair value – through profit or loss. Due to application of IFRS 9 from January 1, 2018, the Group accounts for financial liabilities containing derivatives in a similar manner, and classifies financial assets based on the business model for management of financial assets and the contractual feature of cash flows of the financial asset.

Financial assets measured at fair value and recorded in other comprehensive income

The Group classifies the debt instruments as measured at fair value and recorded in other comprehensive income in cases when they are held within the business model of the Group, the purpose of which is holding of assets for collection of contractual cash flows and/or sale of such assets.

The particular group includes assets available for sale as previously categorized under IAS 39.

The unfairized profit and loss generated from the change of the fair value are recognized directly in the equity until the point, when the particular debt instrument is sold or is determined as impaired. The profit or loss accumulated at that point, which has previously

been recognized in the equity, should be recognized in the financial statements for the reporting period.

The estimation of expected loss from debt instruments measured at fair value and recorded in other comprehensive income is not deducted from their book value, and their fair value is reflected in the financial statement. Instead, the amount of impairment is recognized in other comprehensive income as accumulated impairment by corresponding it to income/expenditure. In other comprehensive income the accumulated loss is reclassified to financial results at the point of de-recognition of the asset.

The interests estimated by effective rate method are recognized in the consolidated comprehensive financial statements. The dividends from capital instruments available for sale are recorded in the consolidated comprehensive financial statements only when the Group is authorized to receive those dividends. The fair value of the financial asset intensively traded in regulated financial markets is determined through the prices quoted for the particular asset at closing of the stock exchange as of the reporting date. The fair value of assets that do not have active market is determined by means of valuation models. Such models involve the recent independent market deals, references to market prices of assets not having essential difference, and the discounted cash flows analysis.

The estimation of the expected loss is described in the *Impairment of Financial Instruments* section.

The Group has classified capital instruments as measured at fair value and recorded in other comprehensive income, and all fairized and unfairized profit and loss related thereto, except the dividends, are recorded directly in the equity and are deemed financial results not to be reclassified later.

Impairment is not calculated for capital instruments.

4. Summary of accounting policies (continued) Financial instruments

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

The Group continuously monitors all assets subject to impairment. In order to classify an instrument or a portfolio of instruments the Group assesses whether there has been a significant increase in credit risk since initial recognition.

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group assesses whether there has been a significant increase in credit risk if asset is more than 30 days overdue. In addition as an assessment of significant increase of risk Group considers additional quantitative and qualitative parameters such as monitoring results, restructuring of the loans, deterioration in macroeconomic factors affecting borrower.

Main consideration when classifying assets into Stage 2 is if payment of principal and interests are overdue by 30 days.

Main consideration when classifying assets into Stage 3 is if payment of principal and interests are overdue by 90 days.

The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower having past due liabilities to other financial organizations
- The borrower requesting emergency funding from the Group
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's financial state
- Deterioration in macroeconomic factors affecting borrower
- The borrower is deceased

Expected Credit Loss (ECL)

In order to calculate ECL Group considered historical data of five years. Afterwards for Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The exposure at default (EAD)

EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

Loss given default (LGD)

LGD rates take into account the expected EAD in comparison to the amount expected to be recovered realised from any collateral held. LGD is calculated based on historical data of five years.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

As a summary Group classified its loan portfolio into the following categories: business loans, gold collateral loans, mortgage loans and other retail loans.

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

4. Reclassification of financial assets and liabilities

After 1 January 2018 The Group does not reclassify financial assets after initial recognition except for rare situations when the Group purchases, sells or prorogue business activity.

The Group never reclassifies the financial liabilities.

No reclassification of financial assets and liabilities took place during 2018.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Repurchase and reverse repurchase agreements

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

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

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

Leases

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based

on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

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

Operating - Group as lessor

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

Property, plant and equipment

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

Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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

	<i>Useful life (years)</i>	<i>Rate (%)</i>
Buildings	20	5
Computers	1	100
Vehicles	8	12.5
Equipment	8	12.5
Other fixed assets	8	12.5

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

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

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

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their

carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

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

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

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

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

Intangible assets

Intangible assets include computer software, licences and other.

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

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

3.Summary of accounting policies (continued)

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 recognized in the consolidated financial statements at fair value, in "Other liabilities",

being the premium received. Following initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Provisions

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

Equity

Share capital

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

Share premium

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Summary of significant accounting policies (continued)

Equity (continued)

Property revaluation surplus

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

Revaluation reserve for available-for-sale securities

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

Offsetting

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

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

4. Critical accounting estimates and judgements

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

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

Measurement of fair values

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

Classification of investment securities

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

Related party transactions

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

Allowance for loan impairment

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

7. Interest income and expense

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Loans and advances to customers	4,261,501	3,528,223
Debt securities available-for-sale	530,661	376,446
Amounts due from banks	52,455	6,127
Held to maturity investments	13,700	-
Other interest income	1,309	1,301
Total interest income	4,859,626	3,912,097
Amounts due to customers	1,528,324	1,688,000
Other borrowed funds	497,989	184,009
Subordinated loans	100,542	99,341
Amounts due to banks	30,531	578
Bonds issued by the Bank	91,356	-
Total interest expense	2,248,742	1,971,928

Interest income accrued on loans, for Stage 3, for the period ended 31 March 2018, comprised AMD 48,276 thousand.

8. Fee and commission income and expense

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Plastic cards operations	226,840	187,052
Wire transfer fees	157,120	115,229
Settlement operation	57,351	62,583
Fees and commission income from loans	69,631	32,232
Guarantees and letters of credit	11,382	7,819
Other	52,180	56,260
Total fee and commission income	574,504	461,175
Plastic cards operations	139,572	95,755
Settlement operations	32,529	15,173
Wire transfer fees	26,237	20,408
Guarantees and letters of credit	354	0
Other expenses	9,998	6,324
Total fee and commission expense	208,690	137,660

9. Net trading income

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Net gains from foreign currency transactions	265,491	317,485
Net gain/(loss) from trading securities	17,357	16,357
Net gain/(loss) on financial instruments at fair value through profit or loss	56,835	(75,237)
Total net trading income	339,683	258,605

10. Other income

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Fines and penalties received	114,251	156,249
Net income from operations with precious metals	16,957	48,214
Income from grants	-	-
Income from sale of fixed assets	25	-
Dividend income	606	606
Income from cash collection services	9,136	6,675
Other income	131,217	32,653
Total other income	272,192	245,670

11. Impairment losses

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Loans and advances to customers (Note 18)	373,350	504,296
Other assets (Note 25)	(19,269)	(14,360)
Credit related commitments (Note 32)	428	-
Other provisions (Note 15,17,21)	5,810	-
Total impairment charge	360,319	489,936

12. Staff costs

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Salaries	1,108,101	985,884
Other expenses	32,614	7,376
Total staff costs	1,140,715	993,260

13. Other expenses

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Fixed assets maintenance	26,371	22,069
Consulting and other services	25,440	16,051
Operating lease	135,355	120,894
Taxes, other than income tax, duties	2,751	6,318
Advertising costs	118,516	63,281
Insurance expenses	27,736	19,829
Communications	30,068	28,101
Security	51,514	47,473
Insurance of deposits	57,381	49,673
Office supplies	5,649	14,461
Business trip expenses	12,155	1,737
Armenian Software expenses	48,067	44,465
Expenses related to ARCA	42,642	34,563

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Penalties paid	402	3,041
Other expenses	264,278	149,519
Total other expenses	848,325	621,474

14. Income tax expense

<i>In thousand Armenian drams</i>	01/01/18- 31/03/18	01/01/17- 31/03/17
Current tax expense	287,753	46,842
Adjustments of current income tax of previous years	-	-
Deferred tax expense/ (benefit)	(66,385)	61,015
Total income tax expense	221,368	107,857

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2017: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

<i>In thousand Armenian drams</i>	31/03/18	31/03/17
Profit before tax	1,229,384	502,054
Income tax (benefit)/expense at the rate of 20%	245,877	100,411
Non-taxable income	48,173	31,263
Non-deductible expenses	(83,789)	(52,288)
Foreign exchange losses	11,106	28,471
Adjustment of current income tax of previous years	0	0
Income tax expense	221,368	107,857

Deferred tax calculation in respect of temporary differences:

<i>In thousand Armenian drams</i>	<i>As of December 31, 2017 restated</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehensive income</i>	<i>As of March 31, 2018</i>
Repossesses assets	39,209			39,209
Other assets	11,863	5,599		17,462
Held to maturity securities	413	960		1,373
Other liabilities	41,163	-		41,163
Total deferred tax assets	92,648	6,559	-	99,207
Securities available for sale	(482,279)	(3,641)	(15,724)	(501,644)
Loans and advances to customers	(478,367)	55,768		(422,599)
Property, plant and equipment	(212,131)	7,699		(204,433)
Liabilities to customers	(1,807)			(1,807)
Total deferred tax liability	(1,174,586)	59,826	(15,724)	(1,130,483)

<i>In thousand Armenian drams</i>	<i>As of December 31, 2017 restated</i>	<i>Recognized in profit or loss</i>	<i>Recognized in other comprehens ive income</i>	<i>As of March 31, 2018</i>
Net deferred tax liability	(1,081,938)	66,385	(15,724)	(1,031,274)

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

15. Cash and cash equivalents

<i>In thousand Armenian drams</i>	<i>31/03/2018</i>	<i>31/12/2017</i>
Cash on hand	9,645,223	8,802,423
Correspondent accounts with the CBA	33,032,176	29,005,963
Placements with other banks	2,666,477	2,033,663
Impairment allowance	(5,545)	
Total cash and cash equivalents	45,338,331	39,842,049

Correspondent accounts with the CBA and other banks are in Stage 1. ECL for these accounts is presented below.

<i>In thousand Armenian drams</i>	
As of 1 January 2018 restated	6,004
Charge for the period/Note 11	(459)
Amounts written off	-
As of 31 March 2018	5,545

As of 31 March 2018 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 18% of certain obligations of the Group, denominated in foreign currency and amounts to AMD 22,326,114

thousand (2016: AMD 22,573,220 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 March 2018 placements with other banks in the amount of AMD 2,229,170 thousand (83.6%) were due from three banks (2017: AMD 1,716,360 thousand (84.4%) were due from three banks).

16. Trading securities

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Debt securities issued by the RA government	742,435	787,330
Total trading securities	742,435	787,330

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

	31/03/2018		31/12/2017	
	%	Maturity	%	Maturity
Debt securities issued by the RA government	8.00-13.00	2020-2036	8.00-13.00	2020-2036

As at 31 March 2018 there were no Trading securities pledged to third parties in sale and repurchase agreements (2017: 0 AMD). These securities are reclassified as securities pledged under repurchase agreements in the consolidated statement of financial positions (Note 20).

17. Amounts due from banks

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Deposits and deposited funds with CBA	6,244,936	920,000
Loans and deposits to banks	2,209,484	753,858
Reverse repurchase agreements	2,014,065	7,025,413
Receivables from payment and settlement operations	631,663	1,194,907
Other	648,619	652,177
Impairment allowance	(7,449)	-
Total amounts due from banks	11,741,318	10,546,355

Amounts due from banks are in Stage 1.
ECL for these accounts is presented below.

<i>In thousand Armenian drams</i>	
As of 1 January 2018 restated	5,979
Charge for the period/Note 11	1,470
Amounts written off	-
As of 31 March 2018	7,449

18. Loans and advances to customers

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Loans to customers	129,673,912	139,239,113
Overdrafts	26,568,005	25,558,298

In thousand Armenian drams	31/03/2018	31/12/2017
Loans to customers	129,673,912	139,239,113
Repo agreements	4,130,664	4,820,511
Factoring	73,638	95,247
Letter of credit	1,613	1,525
Financial lease receivables	316,794	316,157
Less allowance for loan impairment	(5,553,859)	(4,863,351)
Total loans and advances to customers	155,210,767	165,167,500

As of 31 March 2018 the Bank had a concentration of loans totalling to AMD 34,297,184 thousand due from the ten largest groups of borrowers (22.1% of gross loan portfolio) (2017: AMD 48,622,782 thousand or 28.6% of gross loan portfolio). An allowance for impairment in the amount of AMD 1,328,587 thousand (2017: AMD 1,251,130 thousand) was created against these loans.

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

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Consumer loans to individuals	44,798,576	43,061,622
Mortgage	29,038,129	28,612,661
Trading	23,918,315	23,146,110
Energy	8,320,543	7,699,389
Other	22,741,768	15,737,740
Construction	6,750,564	6,100,246
Transport and communication	1,156,422	17,701,025
Agriculture (including loans to individuals)	8,618,504	7,012,168
Manufacturing	7,187,613	6,362,891
Services	8,234,192	14,596,999
	160,764,626	170,030,851
Less allowance for loan impairment	(5,553,859)	(4,863,351)
Total loans and advances to customers	155,210,767	165,167,500

Loans and advances to customers by impairment stages may be specified as follows:

				<i>As of 31 March</i>
2018				
<i>In thousand Armenian drams</i>	Stage 1	Stage 2	Stage 3	Total
Business loans	81,815,266	467,581	4,645,073	86,927,920
Mortgage loans	26,895,289	257,525	1,885,314	29,038,129
Consumer loans	26,891,338	272,616	733,188	27,897,141
Gold loans	16,760,322	103,486	37,628	16,901,435
Total	152,362,214	1,101,209	7,301,203	160,764,626
				<i>As of 31 December 2017</i>
<i>In thousand Armenian drams</i>	Stage 1	Stage 2	Stage 3	Total
Business loans	93,145,543	574,521	4,636,504	98,356,568

Mortgage loans	26,199,050	263,824	2,149,787	28,612,661
Consumer loans	26,065,578	289,776	801,973	27,157,327
Gold loans	15,792,726	87,567	24,002	15,904,295
Total	<u>161,202,897</u>	<u>1,215,688</u>	<u>7,612,266</u>	<u>170,030,851</u>

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

ECL for business loans is as follows:

<i>in thousand Armenian drams</i>	Stage 1	Stage 2	Stage 3	Total
ECL as of 01 January 2018 restated	745,400	20,554	2,733,496	3,499,450
New assets originated	87,719	280	1,298	89,297
Assets derecognized or repaid/excluding write offs/	(53,685)	(9,121)	(278)	(63,083)
Transfer to Stage 1	(55)	-	-	(55)
Transfer to Stage 2	-	1,549	-	1,549
Transfer to Stage 3	-	-	35,058	35,058
Impact on year end ECL of exposures transferred between stages during the year	(16,440)	(219)	50,975	34,316
Recoveries	-	-	77,613	77,613
Amounts written off	-	-	(47,231)	(47,231)
ECL as of 31 March 2018	812,788	26,275	2,787,852	3,626,914

ECL for Mortgage loans is as follows:

<i>in thousand Armenian drams</i>	Stage 1	Stage 2	Stage 3	Total
ECL as of 01 January 2018 restated	321,234	50,896	1,095,993	1,468,122
New assets originated	50,453	-	-	50,453
Assets derecognized or repaid/excluding write offs/	(6,488)	-	(5,694)	(12,182)
Transfer to Stage 1	(23,898)	-	-	(23,898)
Transfer to Stage 2	-	14,970	-	14,970
Transfer to Stage 3	-	-	21,224	21,224
Impact on year end ECL of exposures transferred between stages during the year	(7,048)	(157)	89,543	82,338
Recoveries	-	-	20,449	20,449
Amounts written off	-	-	(299,040)	(299,040)
ECL as of 31 March 2018	320,029	39,769	962,638	1,322,436

ECL for Gold loans is as follows:

<i>in thousand Armenian drams</i>	Stage 1	Stage 2	Stage 3	Total
ECL as of 01 January 2018 restated	9,502	5,161	11,196	25,859
New assets originated	3,891	101	316	4,308
Assets derecognized or repaid/excluding write	(2,697)	(1,157)	(3,742)	(7,595)

offs/				
Transfer to Stage 1	(1,301)	-	-	(1,301)
Transfer to Stage 2	-	1,835	-	1,835
Transfer to Stage 3	-	-	13,167	13,167
Impact on year end ECL of exposures transferred between stages during the year	(205)	682	73	550
Recoveries	-	-	4,386	4,386
Amounts written off	-	-	(10,023)	(10,023)
ECL as of 31 March 2018	9,899	3,952	17,334	31,185

ECL for Consumer loans is as follows:

<i>in thousand Armenian drams</i>	Stage 1	Stage 2	Stage 3	Total
ECL as of 01 January 2018 restated	303,328	48,133	257,744	609,206
New assets originated	35,412	463	279	36,154
Assets derecognised or repaid/excluding write offs/	(28,604)	(8,992)	(5,628)	(43,224)
Transfer to Stage 1	(13,677)	-	-	(13,677)
Transfer to Stage 2	-	20,689	-	20,689
Transfer to Stage 3	-	-	65,866	65,866
Impact on year end ECL of exposures transferred between stages during the year	(13,910)	7,664	72,837	66,591
Recoveries	-	-	77,239	77,239
Amounts written off	-	-	(244,550)	(244,550)
ECL as of 31 March 2018	293,449	41,958	237,917	573,324

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

<i>In thousand Armenian drams</i>	Business loans	Gold loans	Mortgage loans	Consumer loans	Total
Balance as of 01 January 2018 restated	3,499,450	25,859	1,468,122	609,206	5,602,637
Charge for the period	97,082	10,964	132,905	132,399	373,350
Amounts written off	(47,231)	(10,023)	(299,040)	(245,520)	(601,814)
Recoveries	77,613	4,386	20,449	77,239	179,687
Balance as of 31 March 2018	3,626,914	31,185	1,322,436	573,324	5,553,859

<i>In thousand Armenian drams</i>	Business loans	Gold loans	Mortgage loans	Consumer loans	Total
Balance as of 01 January 2017 restated	2,832,082	19,079	1,045,123	657,912	4,554,196
Charge for the period	753,171	24,700	174,485	193,958	1,146,313
Amounts written off	(601,485)	(53,583)	(436,710)	(1,137,303)	(2,229,081)
Recoveries	218,677	39,260	393,393	740,594	1,391,924
Balance as of 31 January 2017	3,202,474	29,456	1,176,291	455,132	4,863,353

The finance lease receivables represent:

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Gross investment in finance lease, receivable:		
Not later than 1 year	277,044	254,216
1-5 years	55,579	80,438
5 years and more	1,323	5,580
	333,946	340,234
Unearned future finance income on finance lease	(17,154)	(24,077)
Net investment in financial lease, before impairment allowance	316,792	316,157
Impairment allowance	(244,431)	(237,461)
Net investment in finance lease	72,361	78,696

The estimated fair value of loans and advances to customers as of 31 March 2018 and 31 December 2017 are disclosed in Note 36.

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

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

19. Investment securities available for sale

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Government bonds	14,170,812	18,518,365
RA corporate equity shares	57,794	57,794
Investments in funds	605,218	579,582
Equity shares of OECD countries	924,436	888,409
Corporate bonds of OECD countries	125,743	123,062
RA corporate bonds	4,178,275	2,645,006
Total investment securities available for sale	20,062,278	22,812,218

All debt securities have fixed coupons.

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

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

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

<i>In thousand Armenian drams</i>	31/03/2018		31/12/2017	
	%	Maturity	%	Maturity
Government bonds	4.93-18.35	2018-2047	4.76-18.35	2018-2047
RA corporate bonds	5.83-12.63	2018-2022	5.83-12.63	2018-2022
Corporate bonds of OECD countries	8.62-8.63	2020	8.62-8.63	2020

As at 31 March 2018 there were no investments available for sale included RA government bonds pledged under repurchase agreements with CB of RA, with the right to sell or re-pledge by the counterparty 6,514,632 AMD (2017: AMD 3,056,113). These securities are reclassified as securities pledged under repurchase agreements in the consolidated statement of financial positions (Note 20).

ECL for these accounts is as follows:

In thousand Armenian drams

As of 1 January 2018 restated	256,887
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	(47,911)
As of 31 March 2018	208,976

20. Securities pledged under repurchase agreements

In thousand Armenian drams

	<u>31/03/2018</u>	<u>31/12/2017</u>
Trading securities (Note 16)	-	-
Investment securities (Note 19)	6,514,632	3,056,113
Total	<u>6,514,632</u>	<u>3,056,113</u>

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

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

ECL for these accounts is as follows:

In thousand Armenian drams

As of 1 January 2018 restated	27,326
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	29,706
As of 31 March 2018	57,032

21. Held to maturity investments

In thousand Armenian drams

	<u>31/03/2018</u>	<u>31/12/2017</u>
Government bonds	1,355,517	346,140
Impairment allowance	(6,863)	-
Total held to maturity investments	<u>1,348,654</u>	<u>346,140</u>

Held to maturity investments are in Stage 1.

ECL for these instruments is as follows.

In thousand Armenian drams

As of 1 January 2018 restated	2,064
Charge for the period/Note 11	4,799
As of 31 March 2018	6,863

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

	<i>31/03/2018</i>		<i>31/12/2017</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Government bonds	0.00	2018-2019	0.00	2018

22. Property, plant and equipment

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Equipment</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Other fixed assets</i>	<i>Leasehold improvements</i>	<i>Total</i>
Revalued amount or cost							
As of January 1, 2017	5,134,018	753,258	208,627	2,936,691	741,403	965,437	10,739,434
Additions	103	31,317	6,025	410,824	68,455	99,883	616,607
Disposals	-	(33,269)	(4,000)	(34,391)	(35,940)	(42,355)	(149,955)
Adjustments	(156,025)	-	-	3,577	10,737	78,143	(63,569)
Effect of revaluation	(61,078)	-	-	-	-	-	(61,078)
Transfer between categories	-	(106)	-	106	28,836	(28,836)	-
As of December 31, 2017	4,917,018	751,200	210,652	3,316,807	813,491	1,072,272	11,081,439
Additions	3,023	10,937	-	279,723	22,212	57,702	373,597
Disposals	-	(3,234)	-	(13,182)	(2,148)	-	(18,564)
Effect of revaluation	-	-	-	-	-	-	-
Transfer between categories	-	-	-	-	-	-	-
As of March 31, 2018	4,920,041	758,903	210,652	3,583,348	833,555	1,129,974	11,436,472
Accumulated depreciation							
As of January 1, 2017	-	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
Adjustments	(3,027)	-	-	1,947	5,078	21,830	25,829
Disposals	-	(33,268)	(222)	(34,200)	(33,986)	(42,576)	(144,252)
Effect of revaluation	(1,190)	-	-	-	-	-	(1,190)
Transfer between categories	-	(103)	-	103	7,772	(7,772)	-
As of December 31, 2017	192,788	659,363	206,067	2,623,820	648,020	636,095	4,966,154
Depreciation charge	48,227	7,971	454	57,949	9,958	21,465	146,024
Disposals	-	(3,234)	-	(13,182)	(2,149)	-	(18,565)
Effect of revaluation	-	-	-	-	-	-	-
Transfer between categories	-	-	-	-	-	-	-
As of March 31, 2018	241,015	664,100	206,521	2,668,587	655,829	657,560	5,093,613
Carrying value							
As of January 1, 2017	5,134,018	119,149	15,273	566,590	140,029	409,708	6,384,767
As of December 31, 2017	4,724,230	91,837	4,585	692,987	165,471	436,177	6,115,287
As of March 31, 2018	4,679,026	94,803	4,131	914,761	177,726	472,414	6,342,859

Revaluation of assets

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

The net book value of buildings that would have been recognized under the historic cost method is AMD 730,506 thousand as of 31 March 2018 (2017: AMD 737,210 thousand).

Fully depreciated items

As of 31 March 2018 property, plant and equipment included fully depreciated assets in amount of AMD 2,697,646 thousand (2017: 2,728,548 thousand).

Property, plant and equipment in the phase of installation

As of 31 March 2018 property, plant and equipment included assets in the phase of installation in amount of AMD 232,720 thousand (2017: AMD 139,069 thousand).

Restrictions on title of property, plant and equipment

As of 31 March 2018 and 31 December 2017, the Group does not possess any property, plant and equipment pledged as security for liabilities or whose title is otherwise restricted.

23. Intangible assets

<i>In thousand Armenian drams</i>	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Initial value				
As of January 1, 2017	685,286	61,566	79,234	826,086
Additions	11,361	-	93,600	104,961
Transfer between categories	18,244	5,250	-	23,494
	714,891	66,816	172,834	954,541
As of December 31, 2017	714,891	66,816	172,834	954,541
Additions	0	0	56,552	56,552
As of March 31, 2018	714,891	66,816	229,386	1,011,093
Accumulated amortisation				
As of January 1, 2017	601,610	41,470	43,204	686,284
Amortisation charge	31,426	2,998	7,295	41,719
As of December 31, 2017	633,036	44,468	50,499	728,003
Amortisation charge	10,306	798	2,514	13,618
As of March 31, 2018	643,342	45,266	53,013	741,621
Balance value				
As of January 1, 2017	83,676	20,096	36,030	139,802
As of December 31, 2017	81,855	22,348	122,335	226,538
As of March 31, 2018	71,549	21,550	176,373	269,472

Fully amortized items

As of 31 March 2018, intangible assets included fully amortized assets in amount of AMD 466,849 thousand (2017: AMD 454,122 thousand).

As of 31 March 2018 and 31 December 2017, the Group does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

24. Repossessed assets

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

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Property	1,767,903	1,807,659
Vehicles	-	11,000
Other	24,460	13,460
Total	1,792,363	1,832,119

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

25. Other assets

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Receivables	247,456	416,024
Receivables on cash transfers	65,454	7,004
Total other financial assets	312,910	423,028
Less allowance for impairment of financial assets	(25,798)	(43,421)
Total net other financial assets	287,112	379,607
Precious metals	1,006,820	444,766
Materials	195,264	239,255
Prepayments to suppliers	347,232	550,583
Unamortized insurance premium	26,744	44,994
Other prepaid taxes	308,005	342,867
Settlements with employees	6,997	267
Other	1,865	1,865
Total non-financial assets	1,892,927	1,624,597
Total other assets	2,180,039	2,004,204

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

<i>In thousand Armenian drams</i>	<u>Total</u>
As of January 1, 2017	59,174
Charge for the period	(14,360)
Amounts written off	(13,987)
As of March 31, 2017	30,826

<i>In thousand Armenian drams</i>	Total
As of January 1, 2017	59,174
As of January 1, 2018	43,421
Charge for the period	(19,269)
Amounts written off	1,646
As of March 31, 2018	25,798

26. Amounts due to banks

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Repurchase agreements with CBA	0	0
Repurchase agreements with banks	6,214,624	2,900,619
Correspondent accounts of other banks	101,878	143,170
Loans from banks	4,775,225	12,004,512
Other liabilities	97,022	125,166
Total amounts due to banks	11,188,749	15,173,467

As of 31 March 2018 the group has received loans from 4 banks (2017: also from 4 banks).
The bank has repurchase agreement liabilities to 3 banks as of 31 March 2018 (2017: to 1 bank)

As of 31 March 2018 80.27 % of correspondent accounts of other banks are concentrated within 1 counterparties (2017: 85.89% within 2 counterparties).

27. Derivative financial liabilities

	31/03/2018			31/12/2017		
<i>In thousand Armenian drams</i>	<i>Notional amount</i>	<i>Fair value of assets</i>	<i>Fair value of liabilities</i>	<i>Notional amount</i>	<i>Fair value of assets</i>	<i>Fair value of liabilities</i>
Derivatives held for trading						
Swaps – foreign currency	11,969,773	–	66,963	7,628,876	–	68,857
Total derivative financial instruments	11,969,773	–	66,963	7,628,876	–	68,857

28. Amounts due to customers

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Corporate customers	95,605,429	97,150,768
Current/Settlement accounts	41,423,249	42,525,424
Time deposits	54,182,180	54,625,344
Retail customers	79,395,073	76,783,389

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Current/Settlement accounts	23,344,092	24,815,972
Time deposits	56,050,981	51,947,417
Total amounts due to customers	175,000,502	173,914,157

As of 31 March 2018 included in amounts due to customers are deposits amounting to AMD 17,210,224 thousand (2017: AMD 33,078,968 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates their carrying amount.

As of 31 March 2018 the aggregate balance of top ten customers of the Group amounts to AMD 79,710,597 thousand (2017: AMD 78,683,050 thousand) or 36.9 % of total customer accounts (2016: 45.24%).

29. Bonds issued by the Bank

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Bonds issued by the Bank	5,929,828	5,931,969
Total issued bonds	5,929,828	5,931,969

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

As at 31 March 2018 carrying value of the bonds is AMD 5,929,828 thousand.

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

30. Other borrowed funds

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Loans from CBA	5,622,745	5,117,959
Loans from other financial institution	6,839,350	6,216,391
Loans from international financial institution	1,254,426	1,271,923
Loans from Government of the RA	52,265	53,077
Total other borrowed funds	13,768,786	12,659,350

As of 31 March 2018 Loan from CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes.

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

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

31. Other liabilities

In thousand Armenian drams

	31/03/2018	31/12/2017
Accounts payables	348,919	343,221
Due to personnel	747,030	600,445
Total other financial liabilities	1,095,949	943,666
Tax payable, other than income tax	295,847	360,502
Grants related to assets	25,406	26,010
Other	6,666	6,694
Total other non-financial liabilities	327,919	393,206
Total other liabilities	1,423,869	1,336,872

In thousand Armenian drams

	31/03/2018	31/12/2017
At January 1	26,010	28,432
Recognition of income (Note 10)	(606)	(606)
As of March 31	25,406	27,826

32. Contingent liabilities and commitments

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 March 2018 the nominal or contract amounts were:

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Undrawn loan commitments	9,455,847	10,248,879
Letters of credit	120,015	58,010
Guarantees	3,503,505	3,232,716
Reserves against credit related commitments	(68,161)	
Total commitments and contingent liabilities	13,011,206	13,539,605

ECL for these instruments is as follows.

<i>In thousand Armenian drams</i>	
As of 1 January 2018 restated	67,733
Charge for the period/Note 11	428
As of 31 March 2018	68,161

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

Operating lease commitments – Group as a lessee

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

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Not later than 1 year	588,025	579,847
1 - 5 years	1,330,129	1,952,989
Later than 5 years	1,059,050	2,398,534
Total operating lease commitments	2,977,204	4,931,370

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 March 2018 the Group possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

33. Subordinated debts

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Subordinated debt provided by related party	5,905,776	5,854,396
	5,905,776	5,854,396

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

Subordinated debt from related party is issued in USD, with average effective interest rate of 7.12% per annum and with contractual maturity from January 2023 (2017: 7.12%% and with contractual maturity to January 2023) (See note 35).

34. Equity

As of 31 March 2018 the Bank's registered and paid-in share capital was AMD 16,416,633 thousand (2017: AMD 16,416,633 thousand).

In accordance with the Bank's statues, the share capital consists of 54,722 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each.

The respective shareholdings as of 31 March 2018 and 31 December 2017 may be specified as follows:

<i>In thousand Armenian drams</i>	<i>31/03/2018</i>		<i>31/12/2017</i>	
	<i>Paid-in capital</i>	<i>share % of total paid-in capital</i>	<i>Paid-in capital</i>	<i>share % of total paid-in capital</i>
Advanced Global Investments LLC	13,287,900	80.94	13,287,900	80.94
Advanced Global Investments LLC (preference shares)	33	-	33	-
Haypost Trust Managment CJSC	2,307,900	14.06	2,307,900	14.06
Saint Apostolic Church of Armenia	820,800	5	820,800	5
	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.

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 20% of the Bank's share capital reported in statutory books.

Impact of IFRS9 on capital is as follows:

Revaluation reserve of securities available for sale	
Balance as of 31.12.17 according IAS39	2,171,785
Expected credit losses	284,213

<u>Restated balance as of 01.01.18 according IFRS9</u>	<u>2,455,998</u>
Retained earnings	
Balance as of 31.12.17 according IAS39	12,923,833
Expected credit losses	(1,105,279)
Deffered tax	221,056
<u>Restated balance as of 01.01.18 according IFRS9</u>	<u>12,039,610</u>

The below table represents expected credit losses according IAS39 and according IFRS9 .

Expected credit losses, in thousand AMD	Balance as of 31.12.17 according IAS 39	Remeasurement ECL	Balance as of 01.01.18 according IFRS 9
Cash and cash equivalents	-	6,004	6,004
Amounts due from banks	-	5,979	5,979
Loans and advances to customers	4,863,351	739,286	5,602,637
Investments available for sale	-	256,887	256,887
Securities pledged under repurchase agreements	-	27,326	27,326
Held to maturity investments	-	2,064	2,064
Other financial assets	43,421	-	43,421
<u>Total</u>	<u>4,906,772</u>	<u>1,037,546</u>	<u>5,944,318</u>
Undrawn loan commitments	-	28,592	28,592
Letters of credit	-	691	691
Guarantees	-	38,450	38,450
<u>Total</u>	<u>-</u>	<u>67,733</u>	<u>67,733</u>
Total	<u>4,906,772</u>	<u>1,105,279</u>	<u>6,012,051</u>

35. Transactions with Related parties

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

	31/03/2018			31/12/2017		
	<i>Shareholders and parties related with them</i>		<i>Key management personnel and parties related with them</i>	<i>Shareholders and parties related with them</i>		<i>Key management personnel and parties related with them</i>
<i>In thousand Armenian Drams</i>	<i>Parent Company</i>			<i>Parent Company</i>		
Consolidated Statement of financial position						
Loans and advances to customers						
Loans outstanding at January 1, gross	19,037	28,049,947	389,877	4,811	28,951,581	177,661
Loans issued during the period	28,296	5,686,769	149,319	92,282	26,764,742	1,041,835
Loan repayments during the period	(40,261)	(19,696,815)	(134,464)	(78,056)	(27,666,376)	(829,619)
Loans outstanding at the end of period, gross	7,072	14,039,901	404,732	19,037	28,049,947	389,877
Less: allowance for loan impairment	(71)	(140,399)	(4,047)	(190)	(280,499)	(3,899)
Loans outstanding at the end of period	7,001	13,899,502	400,685	18,847	27,769,448	385,978
Amounts due to customers						
Deposits at January 1	367,619	43,296,298	414,195	348,105	38,802,129	167,545
Deposits received during the period	74,788	154,624,317	657,107	1,022,935	623,622,329	4,088,473
Deposits repaid during the period	(202,839)	(158,221,515)	(587,098)	(1,003,421)	(619,128,160)	(3,841,823)
Deposits at the end of period	239,568	39,699,100	484,204	367,619	43,296,298	414,195
Amounts due to customers - Subordinated debt						
Subordinated debt at January 1	-	5,854,395	-	-	7,598,818	-
Subordinated debt received during the period	-	-	-	-	-	-
Subordinated debt repaid during the period	-	2,222	-	-	(1,741,114)	-
Net result from FX revaluation	-	49,161	-	-	(3,309)	-
Subordinated debt at the end of period	-	5,905,778	-	-	5,854,395	-
Consolidated statement of comprehensive income						
Interest income	0	401,646	6,100	-	2,238,266	13,700
Fee and commission income	220	5,845	152	702	24,965	660
Other income	3	8,107	170	1,300	61,287	910
Interest expense	(1,149)	(505,540)	(3,498)	(3,771)	(1,880,344)	(15,985)
Impairment charge	119	140,100	(148)	(142)	9,016	(2,122)
Other operating expenses	0	(9,160)	(7,112)	-	(43,109)	(28,601)

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

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 year to 20 years (2016: from 1 year to 20 years) and have interest rates of 3-24% (2017: 3-24%,1-20 year). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

Compensation of key management personnel was comprised of the following:

<i>In thousand Armenian drams</i>	31/03/2018	31/12/2017
Salaries and other short-term benefits	112,502	123,620
Total key management compensation	112,502	123,620

36. Fair value measurement

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

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

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

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

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

Financial instruments that are not measured at fair value

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

	As of 31 March 2018				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
Financial assets					
Loans and advances to customers	–		140,332,080	140,332,080	155,210,767
Cash and cash equivalents	45,338,331		–	45,338,331	45,338,331
Amounts due from banks	–		11,741,318	11,741,318	11,741,318
Held to maturity investments			1,354,640	1,354,640	1,348,654
Other financial assets	–		287,112	287,112	287,112
Financial liabilities					
Amounts due to customers	–		175,000,502	175,000,502	175,000,502
Other borrowed funds	–		13,768,786	13,768,786	13,768,786
Amounts due to banks	–		11,188,749	11,188,749	11,188,749
Bonds issued by Banks		5,992,221	–	5,992,221	5,929,828
Subordinated debt	–		5,905,776	5,905,776	5,905,776
Other financial liabilities	–		1,095,949	1,095,949	1,095,949

	As of 31 December 2017				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
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	–		379,607	379,607	379,607
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
Bonds issued by Banks		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

Financial instruments that are not measured at fair value

Amounts due from and to banks

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for

new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 3 % to 24% per annum (2017: 3% to 24% per annum).

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

Amounts due to customers

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

	<i>As of March 31, 2018</i>		
<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Financial assets			
Securities pledged under repurchase agreements		6,514,632	6,514,632
Investments available for sale	919,103	19,085,421	20,004,524
Trading securities		742,435	742,435
Total	919,103	26,342,488	27,261,591
Financial liabilities			
Derivative financial liabilities		66,963	66,963
Total	0	66,963	66,963
Net Fair Value	919,103	26,275,525	27,194,628

	<i>As of December 31, 2017</i>		
<i>In thousand Armenian drams</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
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	0	68,857	68,857
Total	0	68,857	68,857
Net Fair Value	883,076	25,645,934	26,529,010

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

Unquoted RA equity securities

The fair value of Bank's investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 19 for further information about this equity investment.

Fair value measurement of non-financial assets and liabilities

<i>In thousand Armenian drams</i>	<i>As of March 31, 2018</i>	
	<i>Level 3</i>	<i>Total</i>
Non financial assets		
Land and Buildings	4,679,026	4,679,026
Total	4,679,026	4,679,026

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

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

Fair value measurements in Level 3

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

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Total</i>
Non financial assets		
Balance as at 1 January 2018	4,724,230	4,724,230
Purchases	3,023	3,023
Gains/Loss recognised in other comprehensive income	0	0
Disposals	0	0
Accumulated depreciation	(48,227)	(48,227)
Net fair value at 31 March 2018	4,679,026	4,679,026

<i>In thousand Armenian drams</i>	<i>Land and buildings</i>	<i>Total</i>
Non financial assets		
Balance as at 1 January 2017	5,134,018	5,134,018
Purchases	103	103
Gains/Loss recognised in other comprehensive income	(56,861)	(56,861)
Disposals	(156,025)	(156,025)
Accumulated depreciation	(197,005)	(197,005)
Net fair value at 31 December 2017	4,724,230	4,724,230

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

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

The land and buildings were revaluated in 2017. The buildings were previously revaluated in 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.

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

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

		<i>31/03/2018</i>			
		<i>Transferred financial asset</i>	<i>Trading securities</i>	<i>Investment securities available for sale</i>	<i>Total</i>
Carrying amount of assets	Repurchase agreements		0	6,514,632	6,514,632
Total			0	6,514,632	6,514,632
Carrying amount of associated liabilities	Repurchase agreements		0	6,214,624	6,214,624
Total			0	6,214,624	6,214,624
Net position			0	300,008	300,008

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

Repurchase agreements

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

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

As at 31 March 2018 the Group have securities sold under repurchase agreements amounted to AMD 6,514,632 (at 31 December 2017 AMD 3,056,113).

38. Offsetting of financial instruments

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

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets recognized in the consolidated statement of financial position</i>	<i>Related amounts not offset in the consolidated statement of financial position</i>	<i>Cash collateral received</i>	<i>Net amount</i>
31/03/2018						
Financial liabilities						
Repurchase agreements	4,130,664	-	4,130,664	(4,130,664)	-	-
Total	4,130,664	-	4,130,664	(4,130,664)	-	-
31/12/2017						
Financial liabilities						
Repurchase agreements	4,820,511	-	4,820,511	(4,820,511)	-	-
Total	4,820,511	-	4,820,511	(4,820,511)	-	-

39. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 40 for the Group's contractual undiscounted repayment obligations.

<i>In thousand AMD</i>	<i>31 March 2018</i>								<i>Total</i>
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal less over 12 months</i>	<i>No maturity</i>	
Cash and cash equivalents	45,338,331	0	0	45,338,331	0	0	0	0	45,338,331
Trading securities	24,795	0	1,105	25,900	465,707	250,828	716,535	0	742,435
Amounts due from banks	10,086,770	764,928	40,017	10,891,715	0	0	0	849,603	11,741,318
Loans and advances to customers	8,024,162	8,894,897	32,557,189	49,476,248	60,775,354	44,959,167	105,734,520	0	155,210,768
Investments available for sale	1,484,244	91,371	2,469,205	4,044,821	11,795,187	3,240,241	15,035,428	982,029	20,062,278
Securities pledged under repurchase agreements	6,514,632	0	0	6,514,632	0	0	0	0	6,514,632
Investments held for sale	0	257,168	1,091,486	1,348,654	0	0	0	0	1,348,654
Property, plant and equipment	0	0	0	0	0	0	0	6,342,859	6,342,859
Intangible assets	0	0	0	0	0	0	0	269,472	269,472
Repossessed assets	0	0	1,792,363	1,792,363	0	0	0	0	1,792,363
Other assets	1,807,731	46,188	302,731	2,156,650	2,320	21,070	23,389	0	2,180,039
	73,280,665	10,054,552	38,254,095	121,589,312	73,038,567	48,471,306	121,509,873	8,443,963	251,543,148
Liabilities									
Amounts due to banks	8,761,277	1,920,240	435,223	11,116,740	0	0	0	72,009	11,188,749
Derivative liabilities	66,963	0	0	66,963	0	0	0	0	66,963
Amounts due to customers	74,905,921	15,783,085	53,156,621	143,845,627	30,925,507	229,367	31,154,874	0	175,000,501
Other borrowed funds	250,099	172,465	2,161,015	2,583,579	8,017,063	3,168,145	11,185,208	0	13,768,787
Bonds issued by the Bank	46,129	66,702	16,397	129,228	5,800,600	0	5,800,600	0	5,929,828
Income tax liabilities	0	0	706,924	706,924	0	0	0	0	706,924
Deferred tax liabilities	0	0	0	0	1,031,274	0	1,031,274	0	1,031,274
Other liabilities	87,069	383,732	927,661	1,398,462	0	25,406	25,406	0	1,423,868
Other provisions	68,161	0	0	68,161	0	0	0	0	68,161
Subordinated debt	0	97,050	0	97,050	5,808,726	0	5,808,726	0	5,905,776
	84,185,619	18,423,274	57,403,842	160,012,735	51,583,170	3,422,918	55,006,088	72,009	215,090,832
Net position	(10,904,954)	(8,368,722)	(19,149,747)	(38,423,422)	21,455,397	45,048,388	74,875,739	8,371,954	36,452,316
Accumulated gap	(10,904,954)	(19,273,676)	(27,518,469)		2,305,650	74,875,739			

31 December 2017

<i>In thousand AMD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>Subtotal less than 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Subtotal less over 12 months</i>	<i>No maturity</i>	<i>Total</i>
Cash and cash equivalents	39,842,049	0	0	39,842,049	0	0	0	0	39,842,049
Trading securities	0	3,567	11,146	14,713	537,175	235,442	772,617	0	787,330
Amounts due from banks	8,222,566	0	791,619	9,014,185	0	0	0	1,532,170	10,546,355
Loans and advances to customers	7,972,301	18,354,294	37,991,601	64,318,196	53,178,724	47,670,580	100,849,304	0	165,167,500
Investments available for sale	16,495	202,236	1,784,066	2,002,797	15,116,792	4,746,426	1,986,321	946,203	22,812,218
Securities pledged under repurchase agreements	3,056,113	0	0	3,056,113	0	0	0	0	3,056,113
Investments held for sale	0	0	346,140	346,140	0	0	0	0	346,140
Property, plant and equipment	0	0	0	0	0	0	0	6,115,287	6,115,287
Intangible assets	0	0	0	0	0	0	0	226,538	226,538
Repossessed assets	0	0	1,832,119	1,832,119	0	0	0	0	1,832,119
Other assets	1,632,331	23,630	326,598	1,982,559	575	21,070	21,645	0	2,004,204
	60,741,855	18,583,726	43,083,290	122,408,871	68,833,266	52,673,518	121,506,784	8,820,198	252,735,853
Liabilities									
Amounts due to banks	13,456,203	0	1,644,649	15,100,852	0	0	0	72,615	15,173,467
Derivative liabilities		0	0	0	0	0	0	68,857	68,857
Amounts due to customers	73,332,379	11,139,342	63,824,245	148,295,966	25,203,657	220,881	25,424,538	193,653	173,914,157
Other borrowed funds	132,456	225,435	1,606,581	1,964,472	8,091,692	2,603,186	10,694,878	-	12,659,350
Bonds issued by the Bank	0	43,438	47,531	90,969	5,841,000	0	5,841,000	-	5,931,969
Income tax liabilities	0	0	494,171	494,171	0	0	0	-	494,171
Deferred tax liabilities	0	0	0	0	1,302,993	0	1,302,993	-	1,302,993
Other liabilities	384,506	40,774	885,582	1,310,862	0	26,010	26,010	-	1,336,872
Other provisions	0	0	0	0	0	0	0	0	0
Subordinated debt	0	0	(3,214)	(3,214)	0	5,857,610	5,857,610	-	5,854,396
	87,305,544	11,448,989	68,499,545	167,254,078	40,439,342	8,707,687	49,147,029	335,125	216,736,232
Net position	(26,563,689)	7,134,737	(25,416,255)	(44,845,207)	28,393,924	43,965,831	80,844,828	8,485,073	35,999,621
Accumulated gap	(26,563,689)	(19,428,951)	(18,281,518)		2,977,669	80,844,828			

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

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

40. Risk management

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

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

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

Risk management structure

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

The Board

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

Direction

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

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

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

Risk management division

The main functions of the risk management division are:

- ▶ Elaboration and implementation of active mechanisms and processes for risk management in the Group, as well as monitoring over their implementation,

- ▶ Analysis of the risk level of loans issued by the Group and the monitoring over the lending process in the framework of program loans,
- ▶ Monitoring of issued loans, identification of issues related to them and reporting,
- ▶ Supervision over the evaluation of pledged property and periodical revaluations of the pledged property.
- ▶ Organization of the insurance process of the Group's property,
- ▶ Management of the doubtful loans portfolio.

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

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

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

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

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

by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Group's executive body and Board.

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

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

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

Excessive risk concentrations

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

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

40. Risk management

Credit risk

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

As of March 31 2018 and 31 December 2017 the carrying amounts of the Group's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

Risk concentrations

Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 March 2018 and 31 December 2017.

<i>In thousand Armenian drams</i>	<i>Armenia</i>	<i>Other non-OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	42,689,116	2,232,604	416,611	45,338,331
Trading securities	742,435			742,435
Amounts due from banks	10,789,652	193,117	758,549	11,741,318
Loans and advances to customers	148,395,163	6,788,267	27,337	155,210,767
Investments available for sale	19,012,099		1,050,179	20,062,278
Securities pledged under repurchase agreements	6,514,632			6,514,632
Held to maturity investments	1,348,654			1,348,654
Other financial assets	70,603	70	216,440	287,112
As of 31 March 2018	229,562,354	9,214,059	2,469,115	241,245,527

<i>In thousand Armenian drams</i>	<i>Armenia</i>	<i>Other non-OECD countries</i>	<i>OECD countries</i>	<i>Total</i>
Cash and cash equivalents	37,825,148	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	153,991	225,352	265	379,607
As of 31 December 2017	215,878,042	8,176,628	18,882,643	242,937,312

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

40. Risk management (continued)

Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

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

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

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

In thousand Armenian drams	31/03/2018	31/12/2017
Loans collateralized by real estate	85,392,969	82,040,110
Loans collateralized by gold	16,947,711	15,950,465
Loans collateralized by guarantees of enterprises	8,822,045	6,383,684
Loans collateralized by vehicles	2,109,061	2,320,430
Loans collateralized by cash	21,284,099	34,978,334
Loans collateralized by inventories	942,238	676,734
Loans collateralized by equipment	1,575,423	3,300,657
Other securities	4,277,009	5,541,894
Other collateral	8,268,034	7,231,871
Unsecured loans	11,146,037	11,606,672
Total loans and advances to customers (gross)	160,764,626	170,030,851

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

The fair value of collateral that the Group holds relating to the loans with individual signs of impairment at 31 March 2018 amounts to AMD 7,568,528 thousand (2017: AMD 7,808,184 thousand).

40. Risk management (continued)

Risk limit control and mitigation policies (continued)

Credit-related commitments

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

which they relate and therefore carry less risk than a direct loan.

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

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

Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

40. Risk management (continued)

Impairment and provisioning policies (continued)

Loans and advances neither past due or impaired

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

	31 March 2018			
<i>In thousand Armenian drams</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
High grade	21,284,099			21,284,099
Standard grade	130,848,571			130,848,571
Sub-standard grade		227,317	320,466	547,783
Past due but not individually impaired	190,546	344,691	671,659	1,206,896
Individually impaired	41,844	529,201	6,306,232	6,877,277
Total	152,365,060	1,101,209	7,298,357	160,764,626

	31 December 2017			
<i>In thousand Armenian drams</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
High grade	34,978,334			34,978,334
Standard grade	125,887,173			125,887,173
Sub-standard grade		318,448	447,767	766,215
Past due but not individually impaired	174,157	311,916	659,100	1,145,174
Individually impaired	163,233	585,324	6,505,399	7,253,956
Total	161,202,897	1,215,688	7,612,266	170,030,851

Past due but not individually impaired loans

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

	<u>31/03/2018</u>				
<i>In thousand Armenian drams</i>	<u>Less than 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>More than 91 days</u>	<u>Total</u>
Loans and advances to customers					
Manufacture	0	0	0	14,395	14,395
Agriculture	0	0	2,124	22,684	24,808
Construction	0	3,591	0	914	4,505
Trade	0	23,129	24,117	26,086	73,331
Transport and communication	0	0	0	0	0
Consumer loans to individuals	148,980	98,325	111,877	388,686	747,868
Mortgage	56,028	68,970	20,469	160,454	305,921
Services	0	0	30,309	0	30,309
Other sectors	0	0	0	5,759	5,759
Total	205,008	194,015	188,896	618,978	1,206,896

	<u>31/12/2017</u>				
<i>In thousand Armenian drams</i>	<u>Less than 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>More than 91 days</u>	<u>Total</u>
Loans and advances to customers					

	<i>31/12/2017</i>				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	<i>Total</i>
<i>In thousand Armenian drams</i>					
Manufacture	0	10,016	5,296	14,672	29,984
Agriculture	186	2,637	4,788	26,842	34,454
Construction	909	0	0	0	909
Trade	0	0	14,196	14,923	29,119
Transport and communication	0	0	0	12,014	12,014
Consumer loans to individuals	191,801	131,696	72,872	311,735	708,105
Mortgage	28,088	66,224	17,632	214,450	326,394
Services	0	0	0	0	0
Other sectors	0	0	0	4,195	4,195
Total	220,984	210,573	114,784	598,831	1,145,174

40. Risk management (continued)

Market risk

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

Interest rate risk

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 March 2018. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 March 2018 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousand Armenian drams</i>	<i>Increase basis points 31/03/2018</i>	<i>in</i>	<i>Sensitivity of net interest income 31/03/2018</i>	<i>Sensitivity of equity 31/03/2018</i>
Currency				
AMD	1.6%		(46,262)	(627,813)
USD	1%		-	(181,834)
Currency				
AMD	-3.5%		101,198	1,373,340

USD -1% - 69,936

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

<i>Currency</i>	<i>Decrease basis points 2017</i>	<i>in</i>	<i>Sensitivity of net interest income 2017</i>	<i>Sensitivity equity 2017</i>	<i>of</i>
AMD	-3.7%		112,494	1,718,847	
USD	-1%		-	177,373	

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 March 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency risk (continued)

<i>In thousand Armenian drams</i>	<i>As of March 31, 2018</i>		<i>As of December 31, 2017</i>	
<i>Currency</i>	<i>Change in currency rate %</i>	<i>in Effect on profit before tax</i>	<i>Change in currency rate %</i>	<i>in Effect on profit before tax</i>
USD	4%	(7,496)	6%	(39,892)
USD	-4%	7,496	-6%	39,892
EUR	14%	(13,864)	11%	1,232
EUR	-6%	6,376	-11%	(1,232)

40. Risk management (continued)

Liquidity risk

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency. See note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

<i>These ratios were as follows:</i>	<i>31/03/2018, %</i>	<i>31/12/2017, %</i>
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	33.26%	35.26%
N22- Current liquidity ratio(Highly liquid assets /liabilities on demand)	114.48%	102.49%

Analysis of financial liabilities by remaining contractual maturities.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 March 2018 based on contractual undiscounted repayment obligations. See note 40 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousand Armenian drams

	<i>31/03/2018</i>					
	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 12 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Financial liabilities						
Amounts due to banks	8,761,474	1,934,681	446,808	0	72,009	11,214,972
Derivative liabilities	66,963	0	0	0	0	66,963
Amounts due to customers	74,926,741	15,930,759	55,131,393	34,284,466	385,279	180,658,638
Other borrowed funds	267,015	281,804	2,764,050	10,451,834	3,710,678	17,475,381
Bonds issued by the Bank	48,014	83,264	235,670	6,031,630	0	6,398,578
Subordinated debt	0	186,170	0	7,661,312	0	7,847,482
Total undiscounted financial liabilities	84,070,207	18,416,678	58,577,922	58,429,242	4,167,966	223,662,015
Commitments and contingent liabilities	9,479,576	499,100	1,864,321	1,239,727	0	13,082,724

*In thousand Armenian
drams*

31/12/2017

	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Financial liabilities						
Amounts due to banks	13,463,293	0	1,674,272	0	72,615	15,210,180
Derivative liabilities	0	0	0	0	68,857	68,857
Amounts due to customers	73,352,141	11,248,146	65,922,615	28,109,918	564,589	179,197,409
Other borrowed funds	132,553	227,335	1,689,991	10,212,515	3,980,126	16,242,520
Other financial liabilities	0	52,500	321,087	6,129,507	0	6,503,094
Subordinated debt	0	0	-3,214	0	7,907,774	7,904,560
Total undiscounted financial liabilities	86,947,987	11,527,981	69,604,751	44,451,940	12,593,961	225,126,620
Commitments and contingent liabilities	10,352,506	360,101	1,791,053	1,035,959		13,539,605

40. Risk management (continued)

Liquidity risk (continued)

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

Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Group. Operational risk is the risk of incompatibility of the Group's operations and procedures to the legislation in force or their breach, the lack of information of the Group's staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Group. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness.

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

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

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

The risk mitigation mechanisms for the process are:

- ▶ Regulation of all business processes by internal legal acts,
- ▶ Physical protection of the Bank's assets and critical documents (including loan contracts)
- ▶ Establishing and maintaining limits,
- ▶ Common preservation of property and records,
- ▶ Implementation and archiving of data journals,

Implementation of double control mechanism in recording transactions.

Operational risk (continued)

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

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

41. Segment information

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

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

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 and 2017.

The following table present information regarding the Group's operating segments as of 31.03.2018

In thousand Armenian drams

	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Net interest income	1,576,982	573,107	460,795	2,610,884
Net non-interest income	498,883	350,814	259,599	1,109,296
Operating profit	2,075,865	923,921	720,394	3,720,180
Impairment losses	(126,405)	(233,914)	18,205	(342,114)
Depreciation and amortization	(60,784)	(83,977)	(14,881)	(159,642)
Staff expenses	(490,383)	(542,297)	(108,036)	(1,140,716)
Other admin. expenses	(352,222)	(272,717)	(223,386)	(848,325)
Segment profit	1,046,072	(208,984)	392,296	1,229,384
Income tax expense	(140,569)	(28,083)	(52,716)	(221,368)
Profit for the period	905,503	(237,067)	339,580	1,008,016

In thousand Armenian drams

	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Interest bearing fin. assets	72,358,666	82,852,101	40,409,317	195,620,084
Interest bearing fin. liabilities	79,395,073	101,511,205	30,954,326	211,860,604

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

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

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

In thousand Armenian drams

	Retail banking operations	Corporate banking operations	Trading and investing banking activity	Total
Net interest income	5,056,916	2,662,092	1,621,177	9,340,185
Net non-interest income	2,558,554	1,401,252	271,076	4,230,882
Operating profit	7,615,470	4,063,344	1,892,253	13,571,067
Impairment losses	(415,187)	(797,687)	-	(1,212,874)
Depreciation and amortization	(327,009)	(411,214)	(34,596)	(772,819)
Staff expenses	(2,272,011)	(1,512,178)	(514,603)	(4,298,793)
Other admin. expenses	(970,815)	(1,515,797)	(385,455)	(2,872,067)
Segment profit	3,630,448	(173,532)	957,599	4,414,515
Income tax expense	(601,107)	(28,732)	(158,553)	(788,393)
Profit for the period	3,029,341	(202,264)	799,046	3,626,122

In thousand Armenian drams

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

42. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%. Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

As of 31 March 2018 and 31 December 2017 the amount of regulatory capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams

31/03/2018

31/12/2017

Tier 1 capital	25,869,246	24,722,195
Tier 2 capital	10,151,484	11,307,397
Total regulatory capital	36,020,730	36,029,592
Risk-weighted assets	222,442,237	212,464,854
Capital adequacy ratio	16.19%	16.96%

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

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

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

As at 31 March 2018, the regulatory capital of the Bank amounted to AMD **36,020,730** thousand (2017: AMD 36,029,592 thousand).