Financial Statements
and Independent Auditor's Report

“ARARATBANK” open joint stock company

31 December 2017

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Independent auditor's report

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To the shareholders of "ARARATBANK" Open Joint Stock Company

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

- ***Loan impairment allowance***

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

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

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

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

- ***Business combination***

Transition of the acquired company's control to the bank as a result of business combination, as well as fair value determination of acquired assets and liabilities assumed, are the key issues of the audit, because it is required to make judgments, assumptions and assessments.

In order to evaluate the transition of control to the Bank, we have examined the merger documentation and assessed whether the Bank has received control as of the reporting date.

The process of calculating the fair values and the methodology used to determine the fair value were assessed and tested. In relation to the fair value measurement of real estate, we have compared the fair value determined by the management to information available from external sources, for financial instruments we compared effective interest rates with the average market interest rates, as well as we have assessed the disclosures relating to the business combination reflected in the financial statements

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Gagik Gyulbudaghyan
Managing Partner

Armen Hovhannisyan
Engagement Partner

15 April 2018

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	7	16,054,673	10,775,508
Interest and similar expense	7	(8,468,210)	(5,724,914)
Net interest income		7,586,463	5,050,594
Fee and commission income	8	1,380,266	1,049,827
Fee and commission expense	8	(743,711)	(558,934)
Net fee and commission income		636,555	490,893
Gains less losses from foreign currency transactions	9	1,004,975	447,979
Gains less losses from investments at fair value through profit or loss		(78,917)	206,214
Gains less losses on securities available for sale		687,645	309,293
Other operating net income	10	197,047	321,775
Impairment losses	11	(704,196)	(1,265,280)
Staff costs	12	(3,288,348)	(2,313,515)
Goodwill impairment		(880,871)	-
Depreciation and amortization	21	(687,095)	(429,722)
Other administrative expenses	13	(1,850,775)	(1,437,422)
Profit before income tax		2,622,483	1,380,809
Income tax expense	14	(618,097)	(291,334)
Profit for the year		2,004,386	1,089,475
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains from changes in fair value from available-for-sale securities		1,268,127	2,104,280
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale securities		(1,242,734)	(767,354)
Income tax relating to items that will be reclassified		(5,079)	(267,385)
Net gains from items that will be reclassified subsequently to profit or loss		20,314	1,069,541
Total other comprehensive income for the year, net of tax		20,314	1,069,541
Total comprehensive income for the year		2,024,700	2,159,016
Earnings per share	15	1.5	0.81

The accompanying notes on pages 11 to 65 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016
Assets			
Cash and cash equivalents	16	38,044,426	38,617,733
Amounts due from other financial institutions	17	12,425,722	13,275,107
Derivative financial assets	18	21,534	162,677
Securities available for sale	19	29,238,238	26,901,944
Loans to customers	20	119,167,143	66,148,947
Property, plant and equipment and intangible assets	21	5,689,632	2,513,457
Goodwill	6	3,523,466	-
Repossessed assets	22	2,180,351	677,863
Other assets	23	2,179,450	900,959
Total asstes		212,469,962	149,198,687
Liabilities and equity			
Liabilities			
Amounts due to banks	24	3,708,928	2,518,791
Current accounts and deposits from customers	25	95,811,913	62,875,780
Derivative financial liabilities	18	3,253	847
Other borrowings	26	66,843,616	45,729,036
Debt securities issued	27	8,733,830	3,812,886
Current tax liability		269,316	22,693
Deferred tax liability	14	118,577	150,946
Other liabilities	28	1,825,217	957,096
Total liabilities		177,314,650	116,068,075
Equity			
Share capital	29	8,803,655	8,803,655
Share premium		8,031,745	8,031,745
Revaluation reserve for available-for-sale securities		886,937	866,623
Retained earnings		17,432,975	15,428,589
Total equity		35,155,312	33,130,612
Total liabilities ans equity		212,469,962	149,198,687

The financial statements from pages 6 to 65 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on 15 April 2018 and.

Ashot Osipyan
Chairman of the Executive Board

Tigran Galstyan
Chief Accountant

The accompanying notes on pages 11 to 65 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of 1 January 2016	6,387,505	1,947,880	(202,918)	14,339,114	22,471,581
Increase in share capital	2,416,150	6,083,865	-	-	8,500,015
Total transactions with owners	2,416,150	6,083,865	-	-	8,500,015
Profit for the year	-	-	-	1,089,475	1,089,475
Other comprehensive income:					
Net gains from changes in fair value of available for sale securities	-	-	2,104,280	-	2,104,280
Net gains realized to statement of profit or loss on disposal of available for sale securities	-	-	(767,354)	-	(767,354)
Income tax relating to components of other comprehensive income	-	-	(267,385)	-	(267,385)
Total comprehensive income for the year	-	-	1,069,541	1,089,475	2,159,016
Balance As of 31 December 2016	8,803,655	8,031,745	866,623	15,428,589	33,130,612
Profit for the year	-	-	-	2,004,386	2,004,386
Other comprehensive income:					
Net gains from changes in fair value of available for sale securities	-	-	1,268,127	-	1,268,127
Net gains realized to statement of profit or loss on disposal of available for sale securities	-	-	(1,242,734)	-	(1,242,734)
Income tax relating to components of other comprehensive income	-	-	(5,079)	-	(5,079)
Total comprehensive income for the year	-	-	20,314	2,004,386	2,024,700
Balance as of 31 December 2017	8,803,655	8,031,745	886,937	17,432,975	35,155,312

The accompanying notes on pages 11 to 65 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit before tax	2,622,483	1,380,809
Adjustments for		
Amortization and depreciation	687,095	429,722
Goodwill impairment	880,871	-
Impairment losses	704,196	1,265,280
Change in interest receivable	(378,145)	19,369
Change in interest payable	686,886	251,288
Loss from sale of PPE	41,832	-
Gains from sale of other assets	(8,789)	-
Net (gain)/loss from revaluation of non-trading financial assets and liabilities	(78,555)	249,015
Net (gains)/loss from financial instruments at fair value through profit or loss	66,496	(205,090)
Cash flows from operating activities before changes in operating assets and liabilities	5,224,370	3,390,393
(Increase)/decrease in operating assets		
Changes in derivatives	77,053	(41,887)
Changes in loans and advances to banks and other financial institutions	1,150,623	(6,757,122)
Changes in loans to customers	(14,532,597)	(1,520,898)
Changes in repossessed assets	427,118	
Changes in other assets	(510,528)	744,029
Increase/(decrease) in operating liabilities		
Changes in amounts due to banks	(19,384)	(1,128,032)
Changes in current accounts and deposits from customers	(18,060,243)	3,436,332
Changes in other liabilities	791,696	214,383
Net cash flow used in operating activities before income tax	(25,451,892)	(1,662,802)
Income tax paid	(408,922)	(4,367)
Net cash used in operating activities	(25,860,814)	(1,667,169)
Cash flows from investing activities		
(Purchase)/sale of investment securities	3,790,154	(10,409,147)
Purchase of PPE and intangible assets	(1,119,857)	(374,464)
Proceeds from sale of PPE	24,981	-
Cash from business combination	(2,634,938)	-
Net cash from/(used in) investing activities	60,340	(10,783,611)

Statement of cash flows (continued)

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flow from financing activities		
Proceeds from issue of share capital	-	8,500,015
Proceeds from debt securities issued	4,860,375	474,048
Borrowings received from financial institutions	19,960,460	3,126,697
Net cash from financing activities	24,820,835	12,100,760
Net decrease in cash and cash equivalents	(979,639)	(350,020)
Cash and cash equivalents at the beginning of the year	38,617,733	39,171,437
Exchange differences on cash and cash equivalents	406,332	(203,684)
Cash and cash equivalents at the end of the year (note 16)	38,044,426	38,617,733
Supplementary information:		
Interest received	15,676,528	10,794,877
Interest paid	(7,781,324)	(5,473,626)

The accompanying notes on pages 11 to 65 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

ARARATBANK OJSC (the “Bank”) is an opened joint-stock company, which is regulated by the legislation of RA and is the legal successor of “Haykap Bank” CJSC founded in 1991. The Bank conducts its business under license number 4, granted on 20 September 1991, by the Central Bank of Armenia (the “CBA”).

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

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

Its main office is in Yerevan and its 61 branches are located in different regions of Armenia and Nagorno Karabakh. The registered office of the Bank is located at: 19, Pushkin Street, Yerevan.

In 2017 according to the contract of merger the Bank acquired control over "Armenian Development Bank" CJSC, whose license was withdrawn by the Central Bank of Armenia.

The average number of persons employed by the Bank during the year was 884.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank’s functional currency and the Bank’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2017, did not have a material impact on the annual consolidated financial statements of the Bank.

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*
- *Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12.*

3.5 Standards and interpretations not yet applied by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

IFRS 9 Financial Instruments **(2014)**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation* (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

The adoption of the new standard may have a material impact on the opening balance of the Bank's equity as of 1 January 1 2018.

The above assessment is preliminary because not all transition work has been finalised. Especially, The Bank has not yet completed to revise its accounting processes and internal controls changes in accordance with IFRS 9, the refining and finalising its models for ECL calculations and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

Classification – Financial assets and Financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.
IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

A financial asset is classified into one of these categories on initial recognition. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss.

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

– Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

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

– Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

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

– The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9.

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

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

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

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

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

Impairment – Financial assets, loan commitments and financial guarantee contracts

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

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

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

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

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

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

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

– Probability of default (PD);
– loss given default (LGD); and
– exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

The most significant impact on the Bank’s financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. Loss allowances on unsecured products with longer expected lives such as overdrafts and credit cards will be most affected by the new impairment requirements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

– The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

– The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain equity instruments not held for trading as at FVOCI.
- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk at 1 January 2018, then the Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Bank's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The [Group/Banks]'s management have not yet assessed the impact of IFRS 16 on these financial statements.

Other standards

The following amended standards and interpretations are not expected to have significant impact on the Bank's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018).
- Amendments to IAS 40 Investment Property: Transfers of Investment Property (effective from 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019).

4 Summary of significant accounting policies

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

4.1 Business combinations

The Bank applies the acquisition method in accounting for business combinations.

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Bank, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

4.2 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income and expenses

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

Dividend income

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

Net income from financial instruments measured at fair value through profit or loss

Net income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends.

4.3 Foreign currencies

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2017	**31 December 2016**
AMD/1 US Dollar	484.10	483.94
AMD/1 EUR	580.10	512.20

4.4 Taxation

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

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

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

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

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

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

4.5 Cash and cash equivalents

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

4.6 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates.

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

4.7 Amounts due from other financial institutions

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

4.8 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Bank classified its financial assets into the following categories:

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

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

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

Available-for-sale financial assets

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.9 Impairment of financial assets

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

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Impairment allowances of financial assets have been identified in the financial statements on the basis of existing economic conditions. Bank is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

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

Available-for-sale financial assets

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

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

4.10 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

4.11 Repurchase and reverse repurchase agreements

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

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

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

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

4.12 Leases

Operating - Bank as lessee

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

4.13 Property, plant and equipment

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

Land, property, plant and equipment acquired during business combination are initially recognised in the statement of financial position at fair value at the date of acquisition.

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

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	1-3-5	20-33.33-100
Vehicles	5	20
Other fixed assets	1-5	20-100

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

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

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

4.14 Goodwill

Goodwill acquired as a result of business combinations is initially recorded in an amount equal to the excess of the transferred consideration over the net identifiable acquired assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate a possible impairment of the carrying amount.

With the aim of valuation for impairment, goodwill acquired in a business combination is distributed between the cash-generating groups or cash-generating units since the date of acquisition that are expected to receive gains as a result of business combination. Each cash-generating unit or group of cash-generating units to which the goodwill relates:

- represent the lowest of administrative unit in the group from the viewpoint of goodwill analysis for the purpose of internal management.
- the entity shall not exceed the operating segments definition in accordance with IFRS 8 "Operating Segments".

Goodwill impairment is measured on the basis of the recoverable amount of the cash-generating unit (or cash-generating unit group). Impairment losses are recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

4.15 Intangible assets

Intangible assets include computer software, licences and other.

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

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

4.16 Repossessed assets

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

4.17 Borrowings

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

4.18 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Following initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4.19 Provisions

Provisions are recognised when the Bank 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.

4.20 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.

Revaluation reserve for available-for-sale securities

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

4.21 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 32).

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Useful Life of PPE

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

Derivatives

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

Related party transactions

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

Impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of depreciation. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows (refer to note 20).

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

Goodwill impairment

The Company assesses goodwill for each reporting date to determine whether objective evidence of impairment exists. Goodwill impairment is measured on the basis of the recoverable amount of cash-generating units

6 Business combination

In 2017 according to the contract of merger the Bank acquired 100% of shares and control over "Armenian Development Bank" CJSC, whose license was withdrawn by the Central Bank of Armenia. The acquisition allows the Bank to expand its banking activities.

Compensation transferred

The fair value of compensation transferred amounted to AMD 15,129,999 thousand.

Identifiable assets acquired and the liabilities assumed

The fair values of assets acquired and liabilities assumed as a result of the business combination are as at the acquisition date:

In thousand Armenian drams	**Fair values at acquisition date**
Assets	
Cash and cash equivalents	12,495,061
Amounts due from banks and other financial institutions	336,307
Derivative financial assets	3,346
Securities available-for-sale	4,680,292
Securities held-to-maturity	1,263,786
Loans to customers	38,746,022
PPE and intangible assets	2,810,226
Repossessed assets	1,390,558
Other assets	176,104
Total assets	61,901,702
Liabilities	
Amounts due to banks*	114,250
Current accounts and deposits of customers	50,089,623
Other borrowings	878,788
Other liabilities	93,379
Other liabilities	51,176,040
Identifiable net assets	10,725,662

*Amounts due to banks included the bank balances of Araratbank OJSC at the amount of AMD114,009 thousand.

Measurement of fair value

Amounts due from and due to financial institutions

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

Loans and advances to customers

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. The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral.

Investment securities held to maturity

Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Goodwill from acquisition

Goodwill was recognized as a result of acquisition:

In thousand Armenian drams

Compensation transferred	15,129,999
Fair value of identifiable net assets	10,725,662
Goodwill	4,404,337
Goodwill impairment	(880,871)
Goodwill balance after impairment	3,523,466

7 Interest and similar income and expense

In thousand Armenian drams	2017	2016
Interest and similar income		
Loans and advances to customers	12,782,080	7,845,483
Available-for-sale financial assets	2,398,919	1,930,002
Reverse repurchase transactions	562,610	559,517
Loans and advances, cash and cash equivalents to banks and financial institutions	192,551	284,615
Interest accrued on individually impaired financial assets	118,513	155,891
Total interest and similar income	16,054,673	10,775,508
Interest and similar expense		
Current accounts and deposits received from customers	4,743,727	2,433,587
Other borrowings	3,190,351	2,821,350
Amounts due to banks	144,753	147,795
Debt securities issued	331,429	268,931
Repurchase transactions	57,950	53,251
Total interest and similar expense	8,468,210	5,724,914
Interest and similar net income	7,586,463	5,050,594

8 Fee and commission income and expense

In thousand Armenian drams	2017	2016
Fee and commission income		
Payment settlement operations	935,971	709,586
Plastic cards operations	431,883	336,858
Guarantees and letters of credit	12,412	3,383
Total fee and commission income	1,380,266	1,049,827
Fee and commission expense		
Plastic cards operations	554,481	454,748
Payment settlement operations	137,758	71,281
Guarantees	19,917	31,796
Stock exchange services	31,555	1,109
Total fee and commission expense	743,711	558,934
Fee and commission net income	636,555	490,893

9 Gains less losses from foreign currency transactions

In thousand Armenian drams	2017	2016
Gains less losses from trading in foreign currencies	926,420	696,994
Net gain/(loss) from revaluation of non-trading financial assets and liabilities	78,555	(249,015)
Total gains less losses from foreign currency transactions	1,004,975	447,979

10 Other operating income and expenses

In thousand Armenian drams	2017	2016
Other operating income		
Fines and penalties received	669,098	452,511
Gains from operations of precious metals	12	47,575
Gains from sale of other assets	8,789	-
Securities registration services	51,931	-
Other income	50,818	30,693
Total other operating income	780,648	530,779

In thousand Armenian drams	2017	2016
Other operating expense		
Payments to the State Deposit Guarantee Fund	312,127	65,002
Operating expenses on cash collection	89,890	70,200
Depositary services	43,300	-
Operating expenses on payment cards	28,059	18,599
Payments to the Financial System Mediator	21,725	13,336
Net loss from disposal of PPE	41,832	-
Net loss from disposal of other assets	-	4,354
Other expenses	46,668	37,513
Total other operating expenses	583,601	209,004
Total other operating income	197,047	321,775

11 Impairment losses/(reversal)

In thousand Armenian drams	2017	2016
Amounts due from banks and other financial institutions (note 17)	11,822	(11,037)
Loans and advances to customers (note 20)	725,988	1,272,884
Other assets (note 23)	(33,614)	3,433
Total impairment losses	704,196	1,265,280

12 Staff costs

In thousand Armenian drams	2017	2016
Salary and other related payments	3,253,567	2,293,546
Other staff costs	34,781	19,969
	3,288,348	2,313,515

13 Other expenses

In thousand Armenian drams	2017	2016
Operating lease	458,183	369,386
Repairs and maintenance	260,835	188,054
Security	262,680	236,167
Advertising and marketing	150,664	101,790
Taxes other than on income	238,430	163,959
Communication	124,545	92,784
Business trip expenses	41,515	35,827
Office supplies	61,041	53,789
Utilities and office maintenance expenses	79,364	48,963
Professional services	37,524	48,452
Representative expenses	21,361	12,322
Insurance	24,869	16,345
Membership fees	10,894	12,529
Other	78,870	57,055
Total other total administrative expenses	1,850,775	1,437,422

14 Income tax expense

In thousand Armenian drams	2017	2016
Current tax expense	655,545	283,144
Adjustments of current income tax of previous years	-	1,793
Deferred tax	(37,448)	6,397
Total income tax expense	618,097	291,334

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

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

In thousand Armenian drams	2017	Effective rate (%)	2016	Effective rate (%)
Profit before tax	2,622,483		1,380,809	
Income tax at the rate of 20%	524,497	20	276,162	20
Non-deductible expenses	135,681	5	4,594	1
Foreign exchange (gains)/losses	(15,711)	(1)	8,785	-
Effect of the unrecognized deferred tax liabilities in connection with the changes in tax legislation	(26,370)	(1)	-	-
Current tax adjustments for prior years	-	-	1,793	-
Income tax expense	618,097	23	291,334	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2017
Loans to customers	20,636	(3,214)	-	17,422
Current accounts and deposits of clients	3,635	9,021	-	12,656
Other liabilities	95,217	4,625	-	99,842
Gross deferred tax asset	119,488	10,432	-	129,920
Loans and advances to banks and other financial institutions	(29,938)	27,016	-	(2,922)
Property, plant and equipment and intangible assets	(23,841)	-	-	(23,841)
Available-for-sale financial assets	(216,655)	-	(5,079)	(221,734)
Total deferred tax liability	(270,434)	27,016	(5,079)	(248,497)
Net deferred tax liability	(150,946)	37,448	(5,079)	(118,577)

In thousand Armenian drams	As of 31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2016
Available-for-sale financial assets	50,730	-	(50,730)	-
Loans to customers	27,504	(6,868)	-	20,636
Current accounts and deposits of customers	-	3,635	-	3,635
Other liabilities	83,438	11,779	-	95,217
Gross deferred tax asset	161,672	8,546	(50,730)	119,488
Current accounts and deposits of customers	(7,167)	7,167	-	-
Loans and advances to banks and financial institutions	(12,837)	(17,101)	-	(29,938)
Property, plant and equipment and intangible assets	(15,646)	(8,195)	-	(23,841)
Other assets	(3,186)	3,186	-	-
Available-for-sale financial assets	-	-	(216,655)	(216,655)
Total deferred tax liability	(38,836)	(14,943)	(216,655)	(270,434)
Net deferred tax asset/(liability)	122,836	(6,397)	(267,385)	(150,946)

15 Earnings per share

In thousand Armenian drams	2017	2016
Profit for the year	2,004,386	1,089,475
Weighted average number of ordinary shares (thousand shares)	1,337,077	1,337,077
Earnings per share – basic	1.50	0.81

16 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Cash on hand	7,613,864	9,850,129
Correspondent accounts with CBA	29,647,732	25,869,141
Nostro accounts with other banks	782,830	2,898,463
Total cash and cash equivalents	38,044,426	38,617,733

As of 31 December 2017 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 13,950,521 thousand (2016: AMD 10,650,734 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. The mandatory reserve deposits of the Bank are non-interest bearing.

As of 31 December 2017 the Bank does not have a nostro account (31 December 2016: either) the balance of which exceedes 10% of equity.

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

- repayment of AMD 539,072 thousand loan by tangible assets (2016: AMD137,234 thousand)

17 Amounts due from banks and other financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Amounts due from banks		
Loans	678,019	3,880,848
Credit card settlement deposit with the CBA	620,000	290,000
Blocked deposits with foreign banks	-	16,357
Reverse repurchase agreements	4,828,803	5,008,629
Other balances	111,249	36,511
Total amounts due from banks	6,238,071	9,232,345
Amounts due from other financial institutions		
Loans	2,527,472	1,345,122
Reverse repurchase agreements	3,423,945	2,455,331
Blocked deposits with financial institutions	261,507	255,760
Gross amounts due from other financial institutions	6,212,924	4,056,213
Less allowance of impairment on amounts due from financial institutions	(25,273)	(13,451)
Total amounts due from other financial institutions	6,187,651	4,042,762
Total amounts due from banks and other financial institutions	12,425,722	13,275,107

Loans and deposits are not impaired or overdue.

As of 31 December 2017 blocked deposits with financial institutions in the amount of AMD 70,771 thousand (2016: AMD 65,087 thousand) which represents a blocked deposit for membership in Master Card payment system, as well as a blocked AMD 190,735 thousand for membership in Visa payment system (2016: AMD 190,672 thousand).

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2017 are presented as follows:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds	8,499,474	8,252,748	7,510,133	7,463,960
Total assets pledged and loans under reverse repurchase agreements	8,499,474	8,252,748	7,510,133	7,463,960

Loans to banks are not impaired or past due.

The movement in allowance for impairment losses on amounts due from other financial institutions was as follows:

In thousand Armenian drams	Total
At 1 January 2016	24,488
Net reversal for the year	(11,037)
At 31 December 2016	13,451
Net charge for the year	11,822
At 31 December 2017	25,273

18 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

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

The fair values of derivative instruments held are set out below:

In thousand Armenian drams	As of 31 December 2017		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	5,871,622	20,766	49
Foreign exchange forward contracts	1,889,901	768	3,204
Total derivative financial instruments		21,534	3,253

In thousand Armenian drams	As of 31 December 2016		
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	3,482,819	156,234	-
Foreign exchange forward contracts	992,289	6,443	847
Total derivative financial instruments		162,677	847

19 Securities available-for-sale

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
RA state bonds	25,840,497	26,081,268
Corporate bonds	3,310,619	764,837
Corporate shares	87,122	55,839
Total investments	29,238,238	26,901,944

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2016: either).

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 securities by effective interest rates and maturity date comprise:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	%	Maturity	%	Maturity
Government bonds	4.74%-16.60%	2018-2047	4.74%-16.35%	2017-2036
Corporate bonds	4.36%-12.75%	2018-2024	4.36%-10.75%	2018-2019

Available for sale investments stated at cost comprise unquoted equity shares in the sphere of money transfers and financial services. There is no active market for these investments, and recently no transactions have taken place which would give evidence of the fair value of these investments. In addition, certain fair values are formed as a result of applying the method of discounted cash flows, which is explained by the uncertainty of future cash flows in this field. However, management believes that it is less probable that the fair value will significantly differ from the carrying amount.

20 Loans to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans	93,198,548	55,193,382
Credit card loans	15,821,677	6,111,372
Overdrafts and credit lines	7,665,216	6,058,277
Reverse repurchase agreements	50,613	346,342
Finance lease	322,466	89,051
Factoring	4,141,700	38,055
	121,200,220	67,836,479
Less allowance for loan impairment	(2,033,077)	(1,687,532)
Total loans to customers	119,167,143	66,148,947

As of 31 December 2017 the fair value of RA State Bonds collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is AMD 56,033 thousand (2016: AMD 375,267 thousand).

The loans were mainly extended to RA customers whose business activities are in the following economic sectors.

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

										As of 31 December 2017
In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
Loans	21,104,470	2,508,351	11,150,512	25,499,604	4,579,277	7,723,399	23,391,700	16,770,907	8,472,000	121,200,220
Less allowance for loan impairment	(429,935)	(50,167)	(223,010)	(290,455)	(45,720)	(71,945)	(334,273)	(373,406)	(214,166)	(2,033,077)
Net loans	20,674,535	2,458,184	10,927,502	25,209,149	4,533,557	7,651,454	23,057,427	16,397,501	8,257,834	119,167,143

										As of 31 December 2016
In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
Loans	8,494,339	1,740,661	4,580,160	20,277,608	4,770,471	8,068,708	11,403,112	6,870,220	1,631,200	67,836,479
Less allowance for loan impairment	(582,006)	(66,667)	(69,361)	(283,939)	(59,519)	(249,858)	(167,438)	(68,702)	(140,042)	(1,687,532)
Net loans	7,912,333	1,673,994	4,510,799	19,993,669	4,710,952	7,818,850	11,235,674	6,801,518	1,491,158	66,148,947

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

										As of 31 December 2017
In thousand Armenian drams	Industry	Agriculture	Construc-tion	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
As of 1 January 2017	582,006	66,667	69,361	283,939	59,519	249,858	167,438	68,702	140,042	1,687,532
Acquired through business combination	110,736	1,212	18,719	91,162	2,801	62,416	527,566	382,001	62,857	1,259,470
Charge/(Reversal) for the year	353,972	(58,627)	128,971	(174,023)	(97,836)	(304,395)	100,097	855,612	(77,783)	725,988
Amounts (written off)/recovery	(616,779)	40,915	5,959	89,377	81,236	64,066	(460,828)	(932,909)	89,050	(1,639,913)
As of 31 December 2017	429,935	50,167	223,010	290,455	45,720	71,945	334,273	373,406	214,166	2,033,077

In thousand Armenian drams	Industry	Agriculture	Construc-tion	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2017
Individual impairment	-	-	-	41,613	-	-	32,470	90,558	60,689	225,330
Collective impairment	429,935	50,167	223,010	248,842	45,720	71,945	301,803	282,848	153,477	1,807,747
	429,935	50,167	223,010	290,455	45,720	71,945	334,273	373,406	214,166	2,033,077
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	-	-	215,546	-	-	49,496	219,555	687,362	1,171,959

In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2016
As of 1 January 2016	320,630	29,656	90,266	266,849	127,592	271,348	155,168	54,689	310,295	1,626,493
Charge/(Reversal) for the year	305,899	179,425	115,737	313,185	(56,346)	(5,813)	71,915	(1,009)	349,891	1,272,884
Amounts (written off)/recovery	(44,523)	(142,414)	(136,642)	(296,095)	(11,727)	(15,677)	(59,645)	15,022	(520,144)	(1,211,845)
As of 31 December 2016	582,006	66,667	69,361	283,939	59,519	249,858	167,438	68,702	140,042	1,687,532
Individual impairment	301,753	-	-	19,523	12,326	174,883	55,162	-	50,554	614,201
Collective impairment	280,253	66,667	69,361	264,416	47,193	74,975	112,276	68,702	89,488	1,073,331
	582,006	66,667	69,361	283,939	59,519	249,858	167,438	68,702	140,042	1,687,532
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	553,032	-	-	93,203	51,149	571,180	175,549	-	166,582	1,610,695

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
State owned enterprises	8,509,635	456,417
Privately held companies	61,122,497	39,597,013
Individuals	42,596,067	19,935,283
Sole proprietors	8,972,021	7,847,766
	121,200,220	67,836,479
Less allowance for loans and advances impairment	(2,033,077)	(1,687,532)
Total loans and advances to customers	119,167,143	66,148,947

Loans to individuals are presented below:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Credit card loans	15,721,417	6,089,814
Mortgage loans	16,770,907	6,870,220
Gold	5,578,951	4,510,565
Reverse repurchase agreements	50,613	346,342
Car loans	64,409	5,229
Consumer and other loans	4,409,770	2,113,113
Total loans and advances to individuals	42,596,067	19,935,283

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Gross investment on finance leases		
Not later than 1 year	81,684	37,310
1-5 years	312,854	65,424
	394,538	102,734
Unearned future finance income on finance lease		
Not later than 1 year	(14,922)	(1,471)
1-5 years	(57,150)	(12,212)
	(72,072)	(13,683)
Net investment on finance leases	322,466	89,051

As of 31 December 2017 the allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 4,407 thousand (as of 31 December 2016: AMD 7,453 thousand).

Implied interest rate of the lease amounts to 8%-16% (2016: either).

20.1 Credit quality of the loans to customers

The following table provides information on the credit quality of the loans to customers.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The basic part of past due loans are not impaired.

Analysis of past due loans by sector is provided below.

In thousand Armenian drams					As of 31 December 2017
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Industry	16,924	26,039	-	223	43,186
Agriculture	4,184	7,310	-	37,847	49,341
Trading	1,970	38,243	2,341	43,179	85,733
Consumer	103,997	53,486	34,343	208,330	400,156
Mortgage	-	25,431	-	17,758	43,189
Service	10,327	1,218	-	514	12,059
Transport and communication	-	13,545	-	8,142	21,687
Other	79,903	-	-	13,217	93,120
Total	217,305	165,272	36,684	329,210	748,471

In thousand Armenian drams					As of 31 December 2016
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Industry	4,944	-	6,713	6,810	18,467
Agriculture	773	-	-	8,173	8,946
Trading	29,655	31,631	41,873	39,552	142,711
Consumer	57,354	23,087	10,971	110,932	202,344
Mortgage	46,835	11,721	-	1,726	60,282
Service	-	-	-	21,516	21,516
Transport and communication	-	-	-	5,894	5,894
Other	-	692	-	-	692
Total	139,561	67,131	59,557	194,603	460,852

Not impaired and not past due loans and advances

The table below shows the credit quality by class of asset for loans and advances not impaired and not past due based on the historical counterparty default rates.

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Industry	2.96%	3.52%
Agriculture	3.26%	3.83%
Construction	2.07%	1.04%
Transport and communication	0.28%	0.87%
Trading	0.96%	1.31%
Consumer	1.30%	0.93%
Mortgage	1.71%	-
Other	1.84%	6.00%

Individually impaired loans and advances

Before taking into account cash flows occurring from collaterals, individually impaired loans and advances to customers amount to AMD 1,171,959 thousand (2016: AMD 1,610,695 thousand). As of 31 December 2017 the fair value of collaterals of the Bank's individually impaired loans amount to AMD 2,129,187 thousand (2016: AMD 1,780,039 thousand). Collaterals consist of real estate and moveable property.

20.2 Key assumptions and judgments for estimating the loan impairment

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- past due payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Management estimates loan impairment for loans to corporate customers 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 has been identified.

In determining the impairment allowance for loans to corporate customers, management considers the following key assumptions:

- for non-impaired loans the Bank creates a collective provision considering the economic environment and market loss experience
- for impaired loans a discount of 30% to the originally appraised value if the property pledged is sold and a delay of 12 to 48 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision.

The following table provides the analysis of loans to customers by types of collateral:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Real estate	76,189,680	46,825,318
Movable property	907,443	282,339
Inventories	401,476	1,206,771
Guarantees of enterprises and individuals	4,357,310	1,001,971
Precious metals, gold	7,047,341	5,707,812
Cash flows	24,953,989	7,483,498
Cash	1,884,741	519,658
Securities	586,534	4,269,380
Other collateral	4,871,706	539,732
Total loans and advances, gross	121,200,220	67,836,479

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 main types of collateral for loans and advances are:

Loans to corporate customers

Loans to corporate customers are collateralised by:

- business assets of organizations such as premises, inventory;
- financial instruments such as debt securities and equities.

Loans to individuals

Mortgage loans are secured by the underlying real estate. Auto loans are secured by the underlying cars. Gold loans are secured by gold items. Other loans mainly comprise loans extended to Bank's employees, which are secured by salaries of employees. Consumer loans are secured by the goods purchased. Credit card loans are secured by cash flows.

20.3 Significant credit exposures

As of 31 December 2017 the Bank had five borrowers or groups of connected borrowers (2016: two), whose loan balances exceed 10% of equity. The total amount of such loans as of 31 December 2017 was AMD 21,498,630 thousand (2016: AMD 7,210,623 thousand).

20.4 Pledged assets

As of 31 December 2017, loans to customers in amount of AMD 9,033,265 thousand (2016: AMD 3,216,361 thousand) serve as collateral for other borrowings.

20.5 Loan maturities

The maturity of the loan portfolio is presented in note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans.

As of 31 December 2017 and 2016 the estimated fair value of loans and advances to customers approximates its carrying amount (refer to note 32).

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 35. The information on related party balances is disclosed in note 31.

21 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers and communication equipment	Fixtures and fittings	Vehicles	Leasehold improve-ments	Intangible assets	Total
Cost							
At 1 January 2016	1,732,302	1,698,345	669,969	122,650	201,881	500,962	4,926,109
Additions	166,141	79,404	83,387	-	43,235	2,297	374,464
Disposals	-	(38,224)	(31,810)	-	-	-	(70,034)
At 31 December 2016	1,898,443	1,739,525	721,546	122,650	245,116	503,259	5,230,539
Additions	9,647	374,219	208,427	-	59,614	467,950	1,119,857
Disposals	-	(8,228)	(47,814)	(169,223)	(115,426)	-	(340,691)
Acquired through business combination	2,382,672	691,893	704,841	197,175	155,997	226,069	4,358,647
At 31 December 2017	4,290,762	2,797,409	1,587,000	150,602	345,301	1,197,278	10,368,352
Accumulated depreciation							
At 1 January 2016	300,042	1,180,739	474,586	68,378	143,452	190,197	2,357,394
Depreciation and amortisation for the year	59,719	195,677	84,402	21,507	23,329	45,088	429,722
Disposals	-	(38,224)	(31,810)	-	-	-	(70,034)
At 31 December 2016	359,761	1,338,192	527,178	89,885	166,781	235,285	2,717,082
Depreciation and amortisation for the year	117,656	272,027	176,697	21,513	24,177	75,025	687,095
Disposals	-	(7,652)	(40,267)	(169,201)	(56,758)	-	(273,878)
Acquired through business combination	208,817	448,878	528,142	184,839	60,727	117,018	1,548,421
At 31 December 2017	686,234	2,051,445	1,191,750	127,036	194,927	427,328	4,678,720
Carrying amount							
At 31 December 2016	1,538,682	401,333	194,368	32,765	78,335	267,974	2,513,457
At 31 December 2017	3,604,528	745,964	395,250	23,566	150,374	769,950	5,689,632

As of 31 December 2017 non-financial assets included software licenses for Microsoft software (AMD 110,663 thousand in 2016) at the amount of AMD 619,241 thousand.

Fully depreciated items

As of 31 December 2017 fixed assets included fully depreciated assets in amount of AMD 1,496,428 thousand (2016: AMD 1,145,097 thousand).

Fixed assets in the phase of installation

As of 31 December 2017 fixed assets included assets in the phase of installation in the amount of AMD 69,292 thousand (2016: AMD 39,184 thousand) which are not amortized and are classified by their types.

Restrictions on title of fixed assets and intangible assets

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

Contractual commitments

As of 31 December 2017 the Bank had contractual commitments in respect of acquisition of property, plant and equipment amounting to AMD 8,000 thousand (2016: AMD 454 thousand) and intangible assets amounting to AMD 43,750 thousand (2016: nil).

22 Repossessed assets

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as of December 31 are shown below:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Real estate	2,180,288	677,800
Other assets	63	63
Total repossessed assets	2,180,351	677,863

As of the date of repossession the collateral, it is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank 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

23 Other assets

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Receivables under money transfer and clearing systems	1,384,344	687,460
Other receivables	126,227	61,398
	1,510,571	748,858
Less allowance for impairment	(24,145)	(24,361)
Total other financial assets	1,486,426	724,497
Prepayments	323,644	94,813
Precious metals	294,609	17,312
Materials and supplies	74,203	63,743
Other	568	594
Total other non-financial assets	693,024	176,462
Total other assets	2,179,450	900,959

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

In thousand Armenian drams	Total
At 1 January 2016	21,425
Charge for the year	3,433
Amounts written off	(497)
At 31 December 2016	24,361
Acquired through business combination	10,460
Reversal for the year	33,614
Recovery for the year	(44,290)
At 31 December 2017	24,145

24 Amounts due to banks

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans from the CBA	1,530,540	1,207,694
Loans from commercial banks	2,176,250	1,289,575
Vostro accounts	672	5,511
Other liabilities	1,466	16,011
Total amounts due to banks	3,708,928	2,518,791

Other loans item from CBA include loans received within the scope of various international project.

As of 31 December 2017 no bank has balances in the Bank, the residual of which exceeds 10% of the Bank's equity (2016: either).

During 2017 and 2016 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

25 Current accounts and deposits of customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Current accounts and demand deposits		
Individuals	16,467,309	13,427,080
Legal entities	26,780,129	18,010,313
Government of the Republic of Armenia and state institutions	5,813,284	3,822,612
Time deposits		
Individuals	37,175,167	22,109,592
Legal entities	9,576,024	5,506,183
Total amounts due to customers	95,811,913	62,875,780

As of 31 December 2017, the Bank has customer deposit balances of AMD 2,358,716 thousand (2016: AMD 1,464,747 thousand) that serve as collateral for loans granted by the Bank.

Concentration of current accounts and deposits of customers

As of 31 December 2017 the Bank has three customers or groups of connected customers, whose account and deposit balances exceed 10% of the Bank's equity (2016: three). As of 31 December 2017 the balances amount to AMD 15,638,413 thousand (2016: AMD 18,550,412 thousand).

Time deposits have fixed interest rates.

During 2017 and 2016 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

26 Other borrowings

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Borrowings from international and other financial institutions	61,064,008	39,658,072
Borrowings from RA Government	720,267	1,914,039
Borrowings from resident financial institutions	5,059,341	4,156,925
Total other liabilities	66,843,616	45,729,036

Concentration of borrowings from other financial institutions

As of 31 December 2017 the Bank has six counterparties (2016: six), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2017 is AMD 50,748,183 thousand (2016: AMD 35,916,527 thousand).

Other borrowings have fixed and variable interest rates.

During 2017 and 2016 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities

27 Debt securities issued

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Bonds	8,733,830	3,812,886
Total debt securities issued	8,733,830	3,812,886

During the year the Bank did not possess any of its own securities issued (2016: either).

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

Issued bonds include the following:

On 4 December 2017 the Bank has issued 100,000 ordinary bonds with the total amount of AMD 1,000,000 thousand with the maturity of 24 months and profitability of 9.5%.

On 4 December 2017 the Bank has issued 200,000 ordinary bonds with the total amount of USD 5,000,000 with the maturity of 51 months and profitability of 5.5%.

On 2 October 2017 the Bank has issued 200,000 ordinary bonds with the total amount of US dollar 5,000,000 with the maturity of 51 months and profitability of 5.75%.

On 28 October 2016 the Bank has issued 40,000 ordinary bonds with the total amount of US dollar 1,000,000 with the maturity of 36 months and profitability of 6.5%.

On 22 July 2016 the Bank has issued 40,000 ordinary bonds with the total amount of AMD 400,000,000 with the maturity of 24 months and profitability of 13%.

On 17 June, 2016 the Bank has issued 40,000 ordinary bonds with the total amount of US dollar 1,000,000 with the maturity of 36 months and profitability of 7%

On 26 June 2015 the Bank has issued 80,000 ordinary bonds with the total amount of US dollar 2,000,000 with the maturity of 36 months and profitability of 7.25%.

On 11 June 2014 the Bank has issued 40,000 ordinary bonds with the total amount of US dollar 1,000,000 with the maturity of 48 months and profitability of 8%.

28 Other liabilities

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Salary and similar payables	678,010	513,458
Payables to suppliers	456,367	100,358
Other financial liabilities	548,953	232,571
Total other financial liabilities	1,683,330	846,387
Other taxes payable	57,137	83,307
Other non-financial liabilities	84,750	27,402
Total other non-financial liabilities	141,887	110,709
Total other liabilities	1,825,217	957,096

29 Equity

As of 31 December 2017 the Bank's registered and paid-in share capital was AMD 8,803,655 thousand. In accordance with the Bank's statues, the share capital consists of 1,760,731 shares. All shares have a nominal value of AMD 5,000.

The shareholdings may be specified as follows:

In thousand Armenian drams	2017		2016	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Flash LLC	6,402,640	72.73%	6,402,640	72.73%
Barsegh Beglaryan	1,614,285	18.33%	-	-
European Bank for Reconstruction and Development	-	-	1,596,880	18.14%
Rural Impulse Fund JSC	755,315	8.58%	755,315	8.58%
Other shareholders	31,415	0.36%	48,820	0.55%
	8,803,655	100%	8,803,655	100%

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

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 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 to the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory book.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Liabilities in respect of loans and credit lines	6,895,624	3,073,883
Liabilities in respect of credit cards	5,735,273	4,081,670
Undrawn overdrafts	941,310	669,290
Guarantees and letters of credit	1,153,195	154,564
Factoring contracts	156,490	109,272
Total commitments and contingent liabilities	14,881,892	8,088,679

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 – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for office equipment, central office and branch facilities.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Not later than 1 year	419,569	377,459
Total operating lease commitments	419,569	377,459

Information on the Bank's capital commitments is disclosed in note 21.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. As of 31 December 2016 the Bank has insurance for its buildings and transportation means. The Bank also has insurance for total liabilities of the Bank, electronic and computer crime and professional responsibility.

Since 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 10,000 thousand (up to AMD 5,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

31 Transactions with related parties

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

The ultimate controlling party of the Bank is businessman Barsegh Beglaryan, who is the owner of the Bank's shareholder "Flash" LLC.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans to customers				
Loans outstanding at 1 January gross	-	386,374	-	430,984
Loans issued during the year	3,192,494	391,948	-	3,427,527
Loan repayments during the year	(1,459,537)	(504,516)	-	(3,472,137)
Loans outstanding at 31 December gross	1,732,957	273,806	-	386,374
Less allowance for loan impairment	(17,763)	(4,309)	-	(4,507)
Loans outstanding at 31 December	1,715,194	269,497	-	381,867
Amounts due to financial institutions				
At 1 January	824,537	-	2,081,326	-
Received during the year	2,524,130	-	439,134	-
Repaid during the year	(3,348,667)	-	(1,695,923)	-
At 31 December	-		824,537	
Amounts due to customers				
Deposits at 1 January	2,530,863	8,001,860	9,487,669	6,322,342
Deposits received during the year	148,555,315	41,337,870	113,681,275	39,589,886
Deposits repaid during the year	(145,477,869)	(48,942,798)	(120,638,081)	(37,910,368)
Deposits at 31 December	5,608,309	396,932	2,530,863	8,001,860
Guarantees issued	416,504	-	28,785	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	56,309	16,214	-	60,190
Credit (loss)/recovery	(17,763)	198	-	6,892
Fee and commission income	-	-	2,567	853
Gains less losses from trading in foreign currencies	(20,583)	3,330	(23,310)	5,544
Net loss from foreign currency revaluation	(29,865)	15,913	85,766	(8,869)
Interest expenses from amounts due to international institutions	(46,618)	-	(166,500)	-
Interest expenses from amounts due to customers	(225,858)	(18,264)	(113,039)	(207,228)
Fee and commission expense	3,848	6,154	(21,440)	-
Operating lease expenses	(17,400)	(78,211)	(17,400)	(55,627)

The loans issued to parties related with the Bank are repayable in 1-12 years and have interest rate of 4%-24% (2016: 6%-17%)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and bonuses	281,813	277,753
Total key management compensation	281,813	277,753

32 Fair value measurement

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	38,044,426	-	38,044,426	38,044,426
Amounts due from banks and other financial institutions	-	12,425,722	-	12,425,722	12,425,722
Loans to customers	-	119,167,143	-	119,167,143	119,167,143
Other assets	-	1,486,426	-	1,486,426	1,486,426
Financial liabilities					
Amounts due to banks	-	3,708,928	-	3,708,928	3,708,928
Current accounts and deposits from customers	-	95,811,913	-	95,811,913	95,811,913
Other borrowings	-	66,843,616	-	66,843,616	66,843,616
Issued debt securities	-	8,733,830	-	8,733,830	8,733,830
Other liabilities	-	1,683,330	-	1,683,330	1,683,330

In thousand Armenian drams	As of 31 December 2016				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and cash equivalents	-	38,617,733	-	38,617,733	38,617,733
Amounts due from banks and other financial institutions	-	13,275,107	-	13,275,107	13,275,107
Loans to customers	-	66,116,539	-	66,116,539	66,148,947
Other assets	-	724,497	-	724,497	724,497
Financial liabilities					
Amounts due to banks	-	2,518,791	-	2,518,791	2,518,791
Current accounts and deposits from customers	-	62,875,780	-	62,875,780	62,875,780
Other borrowings	-	45,729,036	-	45,729,036	45,729,036
Issued debt securities	-	3,812,886	-	3,812,886	3,812,886
Other liabilities	-	846,387	-	846,387	846,387

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 4% to 24% per annum (2016: 6% to 24% per annum).

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

Due to financial institutions and customers

The fair value of deposits from financial institutions and 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.

Other borrowings

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

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams				As of 31 December 2017
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities available-for-sale	-	29,151,116	-	29,151,116
Derivative financial assets	-	21,534	-	21,534
Total	-	29,172,650	-	29,172,650
Financial liabilities				
Derivative financial liabilities	-	3,253	-	3,253
Total	-	3,253	-	3,253
Net fair value	-	29,169,397	-	29,169,397

In thousand Armenian drams				As of 31 December 2016
	Level 1	Level 2	Level 3	Total
Financial assets				
Securities available-for-sale	-	26,846,105	-	26,846,105
Derivative financial assets	-	162,677	-	162,677
Total	-	27,008,782	-	27,008,782
Financial liabilities				
Derivative financial liabilities	-	847	-	847
Total	-	847	-	847
Net fair value	-	27,007,935	-	27,007,935

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs. Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

Unquoted RA and other countries' equity investments

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

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams				As at 31 December 2017		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 17,20)	8,303,361	-	8,303,361	(8,303,361)	-	-

In thousand Armenian drams				As at 31 December 2016		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (note 17,20)	7,810,302	-	7,810,302	(7,810,302)	-	-

34 Maturity analysis of assets and liabilities

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

In thousand Armenian drams							2017
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash and cash equivalents	38,044,426	-	38,044,426	-	-	-	38,044,426
Amounts due from banks and other financial institutions	10,070,665	2,107,353	12,178,018	244,887	2,817	247,704	12,425,722
Derivative financial assets	10,334	11,200	21,534	-	-	-	21,534
Available for sale securities	-	3,213,510	3,213,510	24,149,256	1,875,472	26,024,728	29,238,238
Loans and advances to customers	8,254,556	36,361,848	44,616,404	50,496,023	24,054,716	74,550,739	119,167,143
Other assets	1,486,426	-	1,486,426	-	-	-	1,486,426
	57,866,407	41,693,911	99,560,318	74,890,166	25,933,005	100,823,171	200,383,489
Liabilities							
Amounts due to banks	906,201	1,726,726	2,632,927	1,076,001	-	1,076,001	3,708,928
Current accounts and deposits from customers	51,601,665	40,614,165	92,215,830	3,555,578	40,505	3,596,083	95,811,913
Derivative financial liabilities	3,253	-	3,253	-	-	-	3,253
Other borrowings	479,338	11,527,284	12,006,622	49,416,353	5,420,641	54,836,994	66,843,616
Debt securities issued	64,282	1,852,300	1,916,582	6,817,248	-	6,817,248	8,733,830
Other liabilities	1,683,330	-	1,683,330	-	-	-	1,683,330
	54,738,069	55,720,475	110,458,544	60,865,180	5,461,146	66,326,326	176,784,870
Net position	3,128,338	(14,026,564)	(10,898,226)	14,024,986	20,471,859	34,496,845	23,598,619
Accumulated gap	3,128,338	(10,898,226)		3,126,760	23,598,619		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							2016
Assets							
Cash and cash equivalents	38,617,733	-	38,617,733	-	-	-	38,617,733
Amounts due from banks and other financial institutions	12,108,488	985,316	13,093,804	181,303	-	181,303	13,275,107
Derivative financial assets	162,677	-	162,677	-	-	-	162,677
Available for sale securities	684	9,297,975	9,298,659	16,662,060	941,225	17,603,285	26,901,944
Loans and advances to customers	3,266,878	23,180,608	26,447,486	30,082,992	9,618,469	39,701,461	66,148,947
Other assets	724,497	-	724,497	-	-	-	724,497
	54,880,957	33,463,899	88,344,856	46,926,355	10,559,694	57,486,049	145,830,905
Liabilities							
Amounts due to banks	282,732	1,298,510	1,581,242	937,549	-	937,549	2,518,791
Current accounts and deposits from customers	36,734,462	25,303,751	62,038,213	822,159	15,408	837,567	62,875,780
Derivative financial liabilities	847	-	847	-	-	-	847
Other borrowings	495,936	9,552,533	10,048,469	31,698,330	3,982,237	35,680,567	45,729,036
Debt securities issued	15,467	977,719	993,186	2,819,700	-	2,819,700	3,812,886
Other liabilities	846,387	-	846,387	-	-	-	846,387
	38,375,831	37,132,513	75,508,344	36,277,738	3,997,645	40,275,383	115,783,727
Net position	16,505,126	(3,668,614)	12,836,512	10,648,617	6,562,049	17,210,666	30,047,178
Accumulated gap	16,505,126	12,836,512		23,485,129	30,047,178		

35 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk and operating risks.

Risk management structure

Risk management is performed in the different levels of the Bank's structure.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Board

The Executive Board is responsible for the control of risk management process.

Audit and Risk Management Committee

The Audit and Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for the liquidity and market risk management, for the assets and liabilities management and makes decisions in respect of these risks within the scope of its authority.

Credit committee

The Credit Committees make decisions on accepting credit risk within the scope of their authority and are responsible for maintaining limits established for controlling credit risk.

Risk Management Department

The Risk Management Department is responsible for disclosure, assessment, analysis, monitoring and controlling of the Bank's risks. It is also responsible for the creation of appropriate risk assessment reporting database.

Internal audit

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

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Executive Board. The report includes aggregate credit exposure, hold limit exceptions, foreign currency risk, liquidity ratios and stress-tests. On a monthly basis detailed reporting of concentration of economic sectors takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. Assets and Liabilities Management Committee and Credit Committee receive a detailed risk report on a monthly basis which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Executive Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Excessive risk concentration

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 Bank's performance to developments affecting a particular industry or geographical location.

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

35.1 Credit risk

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

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

35.1.1 Risk concentrations

Geographical sectors

The majority of the Banks assets is allocated in the Republic of Armenia.

35.1.2 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

The degree of concentration of the credit risk of the loan portfolio is presented in note 20.3.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

The analysis of loan portfolio by collateral is represented in note 20.2.

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

Credit-related commitments

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

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

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

35.2 Market risk

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

35.2.1 Market risk – Non-trading

Interest rate risk

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

Average interest rates

The following table demonstrates applicable average interest rates as of 31 December 2017 and 2016 for interest bearing assets and liabilities.

	2017 Average effective interest rate, %			2016 Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Amounts due from banks and financial institutions	6.39	2.59	-	16.19	2.93	-
Securities available for sale	10.31	5.74	5.06	9.29	6.03	-
Loans to customers	12.88	10.43	7.41	14.57	9.82	7.09
Interest bearing liabilities						
Amounts due to banks	7.92	3.12	1.46	7.84	2.01	0.39
Current accounts and deposits from customers						
-Current accounts and demand deposits	0.1	0.1	-	0.1	0.1	-
-Term deposits	10.52	5.88	4.87	10.95	6.03	-
Other borrowings	8.7	5.74	-	8.15	5.71	-
Debt securities issued	10.98	6.31	-	13	7.14	-

Sensitivity analysis of changes in interest rates

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

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

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

In thousand Armenian drams	As at 31 December 2017					
			Sensitivity of equity			
Currency	Change in basis points	Sensitivity of net interest income	Up to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+3	-	(83,106)	(764,387)	(31,348)	(878,841)
USD	+2	(444,699)	-	-	-	(444,699)
AMD	(3)	-	83,106	764,387	31,348	878,841
USD	(2)	444,699	-	-	-	444,699

In thousand Armenian drams	As at 31 December 2016					
			Sensitivity of equity			
Currency	Change in basis points	Sensitivity of net interest income	Up to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+3	-	(76,224)	(789,578)	(137,574)	(1,003,376)
USD	+2	(286,063)	-	-	-	(286,063)
AMD	(3)	-	77,818	870,848	183,092	1,131,758
USD	(2)	286,063	-	-	-	286,063

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	As at 31 December 2017		As at 31 December 2016	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	15,741	+5	(62,370)
EUR	+5	(683)	+5	18,309

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

In thousand Armenian drams	Armenian Dram	USD	EUR	Other currency	Total
Assets					
Cash and cash equivalents	15,332,550	20,660,034	881,090	1,170,752	38,044,426
Amounts due from other financial institutions	7,204,128	5,221,594	-	-	12,425,722
Securities available for sale	22,675,166	6,306,878	256,194		29,238,238
Loans and advances to customers	33,939,006	81,434,301	3,721,239	72,597	119,167,143
Other financial assets	336,912	443,413	90,179	615,922	1,486,426
Total	79,487,762	114,066,220	4,948,702	1,859,271	200,361,955

In thousand Armenian drams	Armenian Dram	USD	EUR	Other currency	Total
Liabilities					
Amounts due to banks	1,532,677	1,344,216	832,035	-	3,708,928
Amounts due to customers	44,816,188	45,962,972	4,405,887	626,866	95,811,913
Other borrowings	8,401,881	58,441,735	-	-	66,843,616
Debt securities issued	1,417,398	7,316,432	-	-	8,733,830
Other liabilities	1,544,116	94,358	-	44,856	1,683,330
Total	57,712,260	113,159,713	5,237,922	671,722	176,781,617
Total derivative financial instruments	1,956,775	(591,680)	275,547	(1,622,361)	18,281
Net position as of 31 December 2017	23,732,277	314,827	(13,673)	(434,812)	23,598,619
Commitments and contingent liabilities as of 31 December 2017	5,339,223	6,946,511	2,511,097	85,061	14,881,892
Total financial assets	67,984,429	70,412,482	6,259,678	1,011,639	145,668,228
Total financial liabilities	37,001,443	75,744,444	2,652,291	384,702	115,782,880
Total effect of derivative financial instruments	-	4,084,551	(3,241,202)	(681,519)	161,830
Net position as of 31 December 2016	30,982,986	(1,247,411)	366,185	(54,582)	30,047,178
Commitments and contingent liabilities as of 31 December 2016	2,819,803	4,490,101	770,107	8,668	8,088,679

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. Refer to note 16. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

As of 31 December, these ratios were as follows:

	Not audited	
	As at 31 December 2017, %	**As at 31 December 2016, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	32.02	47.91
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	136.37	209.89

Analysis of financial liabilities by remaining contractual maturities

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

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

In thousand Armenian drams	As of 31 December 2017				
	Demand and less than 1 month	**From 1 to 12 months**	**More than 1 year**	**Total gross amount outflow**	**Total**
Non-derivative liabilities					
Amounts due to banks	906,201	1,839,435	1,227,444	3,973,080	3,708,928
Current accounts and deposits from customers	51,609,901	41,967,883	3,779,187	97,356,971	95,811,913
Other borrowings	567,875	14,266,664	63,511,803	78,346,342	66,843,616
Debt securities issued	64,282	1,932,784	8,222,862	10,219,928	8,733,830
Other financial liabilities	1,683,330	-	-	1,683,330	1,683,330
Total liabilities	54,831,589	60,006,766	76,741,296	191,579,651	176,781,617
Derivative financial liabilities					
Foreign exchange swap contracts					
Inflow	1,990,460	3,884,000	-	5,874,460	5,871,623
Outflow	1,973,130	3,872,800	-	5,845,930	5,850,906
Foreign exchange forward contracts					
Inflow	1,890,669	-	-	1,890,669	1,890,669
Outflow	1,893,105	-	-	1,893,105	1,893,105
Commitments and contingent liabilities	14,122,962	386,538	372,392	14,881,892	14,881,892

In thousand Armenian drams	As of 31 December 2016				
	Demand and less than 1 month	From 1 to 12 months	More than 1 year	Total gross amount outflow	Total
Non-derivative liabilities					
Amounts due to banks	283,147	1,385,702	1,062,847	2,731,696	2,518,791
Current accounts and deposits from customers	36,795,679	25,515,662	848,790	63,160,131	62,875,780
Other borrowings	526,245	11,623,281	41,063,950	53,213,476	45,729,036
Debt securities issued	15,467	1,039,748	3,234,355	4,289,570	3,812,886
Other financial liabilities	846,387	-	-	846,387	846,387
Total liabilities	38,466,925	39,564,393	46,209,942	124,241,260	115,782,880
Derivative financial liabilities					
Foreign exchange swap contracts					
Inflow	1,876,510	1,613,191	-	3,489,701	3,485,533
Outflow	1,792,700	1,536,600	-	3,329,300	3,329,300
Foreign exchange forward contracts					
Inflow	992,289	-	-	992,289	992,289
Outflow	986,692	-	-	986,692	986,692
Commitments and contingent liabilities	7,983,320	89,157	9,679	8,088,679	8,088,679

35.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Risk Management department, Board, Executive Management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and

- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

36 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	As of 31 December 2017			
	Amounts due to RA banks	Debt securities issued	Other long-term liabilities	Total
As of 1 January 2017	2,497,269	3,812,886	45,729,036	52,039,191
Cash-flows	*274,657*	*4,860,373*	*19,685,805*	*24,820,835*
Repayments	(8,251,688)	(1,010,270)	(9,816,695)	(19,078,653)
Proceeds	8,526,345	5,870,643	29,502,500	43,899,488
Non-cash	*934,864*	*60,571*	*1,428,775*	*2,424,210*
Foreign exchange gain/loss	197,032	21,595	300,398	519,025
Acquired through business combination	726,151	-	878,593	1,604,744
Accrued interest	11,681	38,976	249,784	300,441
As of 31 December 2017	3,706,790	8,733,830	66,843,616	79,284,236

37 Capital adequacy

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

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

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

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

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

In thousand Armenian drams	Not audited As of 31 December 2017	As of 31 December 2016
Tier 1 capital	31,789,077	31,263,199
Tier 2 capital	1,079,189	1,102,060
Total regulatory capital	32,868,267	32,365,259
Risk-weighted assets	213,057,883	121,309,066
Capital adequacy ratio	15.43%	26.68%

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

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from 1 January 2009.

As of 1 January 2017 and after that period the Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand.

38 Analysis by segment

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

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

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