Financial Statements and Independent Auditor's Report

"ARARATBANK" open joint stock company

31 December 2016

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Independent auditor's report

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To the shareholder 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 at 31 December 2016, 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 at 31 December 2016, 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

We have determined that there are no key audit matters to communicate in our report.

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.

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

Gagik Gyulbudaghyan	Armen Hovhannisyan
Managing Partner	Engagement Partner

20 February 2017

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended 31 December 2016**	Year ended 31 December 2015
Interest and similar income	6	**10,775,508**	10,239,473
Interest and similar expense	6	**(5,724,914)**	(5,675,713)
Net interest income		**5,050,594**	4,563,760
Fee and commission income	7	**1,049,827**	1,002,273
Fee and commission expense	7	**(558,934)**	(493,328)
Net fee and commission income		**490,893**	508,945
Net gain/(loss) on financial instruments at fair value through profit or loss		**206,214**	(40,262)
Gains less losses from foreign currency transactions	8	**447,979**	781,483
Net gain on available for sale financial assets		**309,293**	22,797
Other operating net income	9	**321,775**	494,793
Impairment losses	10	**(1,265,280)**	(960,703)
Staff costs	11	**(2,313,515)**	(2,234,521)
Depreciation and amortization	20	**(429,722)**	(459,745)
Other general administrative expenses	12	**(1,437,422)**	(1,437,311)
Profit before income tax		**1,380,809**	1,239,236
Income tax expense	13	**(291,334)**	(297,555)
Profit for the year		**1,089,475**	941,681
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 financial assets		**2,104,280**	25,668
Net gains realized to statement of profit or loss on disposal of available-for-sale instruments		**(767,354)**	(200,037)
Income tax relating to items that will be reclassified		**(267,385)**	34,874
Net gains from items that will be reclassified subsequently to profit or loss		**1,069,541**	(139,495)
Other comprehensive income for the year, net of tax		**1,069,541**	(139,495)
Total comprehensive income for the year		**2,159,016**	802,186
Earnings per share	14	**0.81**	0.74

The accompanying notes on pages 8 to 58 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2016	As of 31 December 2015
ASSETS			
Cash and cash equivalents	15	**38,617,733**	39,171,437
Amounts due from banks and other financial institutions	16	**13,275,107**	6,497,336
Derivative financial assets	17	**162,677**	3,214
Available-for-sale investments			
- Held by Bank	18	**26,901,944**	14,121,388
- pledged under repurchase agreements	18	**-**	1,023,313
Loans and advances to customers	19	**66,148,947**	66,083,127
Property, plant, equipment and intangible assets	20	**2,513,457**	2,568,715
Prepaid income taxes		**-**	257,877
Deferred tax asset	13	**-**	122,836
Repossessed assets	21	**677,863**	746,859
Other assets	22	**900,959**	1,431,370
TOTAL ASSETS		**149,198,687**	132,027,472
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks	23	**2,518,791**	5,246,779
Current accounts and deposits from customers	24	**62,875,780**	59,337,156
Derivative financial liabilities	17	**847**	1,340
Other borrowings	25	**45,729,036**	40,902,473
Debt securities issued	26	**3,812,886**	3,323,481
Current tax liability		**22,693**	-
Deferred tax liability	13	**150,946**	
Other liabilities	27	**957,096**	744,662
Total liabilities		**116,068,075**	109,555,891
Equity			
Share capital	28	**8,803,655**	6,387,505
Share premium		**8,031,745**	1,947,880
Revaluation reserve for available-for-sale financial assets		**866,623**	(202,918)
Retained earnings		**15,428,589**	14,339,114
Total equity		**33,130,612**	22,471,581
TOTAL LIABILITIES AND EQUITY		**149,198,687**	132,027,472

The financial statements from pages 4 to 58 were approved by the Board of the Bank on 20 February 2017 and signed by the Bank's Chairman of the Executive Board and Chief Accountant.

Ashot Osipyan
Chairman of the Executive Board

Tigran Galstyan
Chief Accountant

The accompanying notes on pages 8 to 58 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Revaluation reserve of investments available for sale	Retained earnings	Total
Balance as of January 1, 2015	6,387,505	1,947,880	(63,423)	13,397,433	21,669,395
Profit for the year	-	-	-	941,681	941,681
Other comprehensive income:					
Net unrealized gains from changes in fair value of available for sale investments	-	-	25,668	-	25,668
Net gains realized to statement of profit or loss on disposal of available-for-sale instruments	-	-	(200,037)	-	(200,037)
Income tax relating to components of other comprehensive income	-	-	34,874	-	34,874
Total comprehensive income for the year	-	-	(139,495)	941,681	802,186
Balance as of 31 December 2015	**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**
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 investments	**-**	**-**	**2,104,280**	**-**	**2,104,280**
Net gains realized to statement of profit or on disposal of available-for-sale instruments	**-**	**-**	**(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**

The accompanying notes on pages 8 to 58 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	**Year ended 31 December 2016**	Year ended 31 December 2015
Cash flows from operating activities		
Profit before tax	**1,380,809**	1,239,236
Adjustments for		
Depreciation and amortization	**429,722**	459,745
Impairment losses	**1,265,280**	960,703
Change in interest receivable	**19,369**	(34,671)
Change in interest payable	**251,288**	(45,816)
Net loss from revaluation of non-trading financial assets and liabilities	**249,015**	85,768
Net (gains)/loss from financial instruments at fair value through profit or loss	**(205,090)**	25,079
Cash flows from operating activities before changes in operating assets and liabilities	**3,390,393**	2,690,044
Changes in derivatives	**(41,887)**	(26,953)
Changes in loans and advances to banks and other financial institutions	**(6,757,122)**	752,443
Changes in loans to customers	**(1,520,898)**	(874,291)
Changes in other assets	**744,029**	671,801
Changes in due to banks	**(1,128,032)**	141,914
Changes in current accounts and deposits from customers	**3,436,332**	(6,503,701)
Changes in other liabilities	**214,383**	(74,079)
Net cash flow used in operating activities before income tax	**(1,662,802)**	(3,222,822)
Income tax paid	**(4,367)**	(709,242)
Net cash used in operating activities	**(1,667,169)**	(3,932,064)
Cash flows from investing activities		
(Purchase)/disposal of investment securities	**(10,409,147)**	168,805
Purchase of property and equipment and intangible assets	**(374,464)**	(383,395)
Net cash used in investing activities	**(10,783,611)**	(214,590)
Cash flow from financing activities		
Issue of share capital	**8,500,015**	-
Issue of debt securities	**474,048**	1,440,769
Borrowings used in/(repaid to) financial institutions	**3,126,697**	(2,861,690)
Net cash from/(used in) financing activities	**12,100,760**	(1,420,921)
Net decrease in cash and cash equivalents	**(350,020)**	(5,567,575)
Cash and cash equivalents at the beginning of the year	**39,171,437**	44,757,540
Exchange differences on cash and cash equivalents	**(203,684)**	(18,528)
Cash and cash equivalents at the end of the year (Note 15)	**38,617,733**	39,171,437

Supplementary information:		
Interest received	**10,794,877**	**10,204,802**
Interest paid	**5,473,626**	(5,721,529)

The accompanying notes on pages 8 to 58 of these financial statements.

Accompanying notes to the financial statements

1 Introduction

1.1 Organizational structure and principal activity

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.

Its main office is in Yerevan and its 51 branches are located in different regions of Armenia and Nagorno Karabakh. The registered office of the Bank is located at: 19, Pushkin Street, Yerevan.

The average number of persons employed by the Bank during the year was 688.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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 Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Bank 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 2016, did not have a material impact on the annual financial statements of the Bank.

- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Disclosure Initiative (Amendments to IAS 1)*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16and IAS 38)*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27)*
- *Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Investment entities: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [add this paragraph if required]*
- *IFRS 14 Regulatory Deferral Accounts.*
- *Annual Improvements to IFRSs 2012–2014 Cycle.*

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.

Management does not anticipate a material impact on the Bank's financial statements from these Amendments, they are presented below.

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealised Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are effective for annual periods beginning on or after January 1, 2017 and are required to be applied retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

***IFRS 9 Financial Instruments* (2014)**

The IASB recently released *IFRS 9 Financial Instruments* (2014), representing the completion of its project to replace *IAS 39 Financial Instruments: Recognition and Measurement.* The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Bank's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

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 has 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 January 1, 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Banks's management has not yet assessed the impact of IFRS 16 on these financial statements.

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 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. According to the Tax Legislation of Republic of Armenia dividend income is non-taxable.

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.

4.2 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 2016	31 December 2015
AMD/1 US Dollar	**483.94**	**483.75**
AMD/1 Euro	**512.20**	**528.69**

4.3 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.

4.4 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, including highly liquid investments maturing within 90 days from the date of acquisition, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

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

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

4.6 Amounts due from banks and 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 and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from Banks are carried net of any allowance for impairment losses.

4.7 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 unrealized 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;
- 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.

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 instruments

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

4.8 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.

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 on income, is transferred from equity 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.

4.9 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.

As part of its operational activities, the Bank securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Reference should be made to the accounting policy on "Derecognition of financial assets and financial liabilities". Interests in the securitised financial assets may be retained by the Bank and are primarily classified as financial assets recorded at fair value through profit or loss, and gains and losses are reported in "Net trading income". Gains or losses on securitizations are based on the carrying amount of the financial assets derecognized and the retained interest, based on their relative fair values at the date of the transfer.

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.

4.10 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.

4.11 Leases

Operating - Bank as leasee

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.

4.12 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.

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.

4.13 Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 10 years.

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

4.14 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 carrying amount and fair value less costs to sell.

4.15 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.

4.16 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.

4.17 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.

4.18 Share capital

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.

4.19 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 (see Note 31).

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 trading, held to maturity financial assets and 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.

Fair value of 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 30).

Allowance for 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 19.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 29.

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.

6 Interest and similar income and expense

In thousand Armenian drams	**2016**	2015
Loans to customers	**7,845,483**	8,014,944
Available-for-sale financial assets	**1,930,002**	1,414,464
Amounts receivable under reverse repurchase agreements	**559,517**	323,557
Loans and advances to banks and financial institutions, cash and cash equivalents	**284,615**	297,106
Interest accrued on individually impaired assets	**155,891**	189,402
Total interest and similar income	**10,775,508**	10,239,473
Current accounts and deposits received from customers	**2,433,587**	2,134,135
Other borrowings	**2,821,350**	2,618,104
Amounts due to banks	**147,795**	112,516
Bonds issued	**268,931**	206,692
Amounts payable under repurchase agreements	**53,251**	604,266
Total interest and similar expense	**5,724,914**	5,675,713

7 Fee and commission income and expense

In thousand Armenian drams	**2016**	2015
Fee and commission income		
Payment and settlement services	**683,724**	665,534
Plastic card servicing	**336,858**	307,977
Guarantee and letter of credit issuance	**3,383**	9,688
Other	**25,862**	19,074
Total fee and commission income	**1,049,827**	1,002,273
Fee and commission expenses		
Operations with plastic cards	**454,748**	393,522
Payment and settlement services	**71,281**	63,767
Guarantees	**31,796**	34,167
Stock exchange services	**1,109**	1,872
Total fee and commission expense	**558,934**	493,328

8 Gains less losses from foreign currency transactions

In thousand Armenian drams	**2016**	2015
Net income from trading in foreign currencies	**696,994**	867,251
Net loss from revaluation of non-trading financial assets and liabilities	**(249,015)**	(85,768)
Total gains less losses from foreign currency transactions	**447,979**	781,483

9 Other operating income and expenses

In thousand Armenian drams	**2016**	2015
Other operating income		
Fines and penalties	**452,511**	520,179
Net gains from operations of precious metals	**47,575**	107,130
Insurance benefit	**-**	267
Net income from disposal of other assets	**-**	8,517
Other income	**30,693**	26,149
Total other operating income	**530,779**	662,242
Other operating expenses		
Payments to the State Deposit Guarantee Fund	**65,002**	56,942
Operating expenses on cash collection	**70,200**	67,631
Operating expenses on payment cards	**18,599**	10,860
Payments to the Financial System Mediator	**13,336**	13,988
Credit bureau expenses	**13,920**	13,920
Net loss from other assests impairment	**4,354**	-
Other expenses	**23,593**	4,108
Total other operating expenses	**209,004**	167,449
Other operating net income	**321,775**	494,793

10 Impairment losses/(Reversal)

In thousand Armenian drams	2016	2015
Loans and advances to banks and other financial institutions (Note 16)	**(11,037)**	(18,052)
Loans to customers (Note 19)	**1,272,884**	1,007,948
Other assets (Note 22)	**3,433**	(29,193)
Total impairment charge for credit losses	**1,265,280**	960,703

11 Staff costs

In thousand Armenian drams	2016	2015
Salary and other related payments	**2,293,546**	2,213,627
Other expenses	**19,969**	20,894
Total staff costs	**2,313,515**	2,234,521

12 Other general administrative expenses

In thousand Armenian drams	2016	2015
Operating lease	**369,386**	330,790
Repairs and maintenance	**188,054**	182,814
Security	**236,167**	213,992
Advertising and marketing	**101,790**	124,871
Taxes other than on income	**163,959**	166,333
Communication	**92,784**	102,249
Business trip expenses	**35,827**	36,282
Office supplies	**53,789**	52,311
Utilities and office maintenance expenses	**48,963**	46,088
Professional services	**48,452**	51,666
Representative expenses	**12,322**	13,790
Insurance	**16,345**	12,793
Membership fees	**12,529**	8,334
Other	**57,055**	94,998
Total other general administrative expenses	**1,437,422**	1,437,311

13 Income tax expense

In thousand Armenian drams	2016	2015
Current tax expense	**283,144**	287,423
Adjustments of current income tax of previous years	**1,793**	31,177
Deferred tax	**6,397**	(21,045)
Total income tax expense	**291,334**	297,555

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

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

In thousand Armenian drams	2016	Effective rate (%)	2015	Effective rate (%)
Profit before tax	**1,380,809**		1,239,236	
Income tax at the rate of 20%	**276,162**	**20**	247,847	20
Non-deductible expenses	**4,594**	**-**	9,937	1
Foreign exchange losses	**8,785**	**1**	22,169	2
Adjustments of current tax of previous years	**1,793**	**-**	31,177	2
Other adjustments	**-**	**-**	(13,575)	(1)
Income tax expense	**291,334**	**21**	297,555	24

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2015	Recognized in the statement of profit or loss	Recognized in other comprehensive income	As of 31 December 2016
Financial assets available-for-sale	**50,730**	**-**	**(50,730)**	**-**
Loans to customers	**27,504**	**(6,868)**	**-**	**20,636**
Current accounts and deposits of clients	**-**	**3,635**	**-**	**3,635**
Other liabilities	**102,934**	**17,911**	**-**	**120,845**
Total deferred tax asset	**181,168**	**14,678**	**(50,730)**	**145,116**
Current accounts and deposits of clients	**(7,167)**	**7,167**	**-**	**-**
Loans and advances to banks and other 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**	**-**	**-**
Contingent liabilities	**(19,496)**	**(6,132)**	**-**	**(25,628)**
Available for sale financial assets	**-**	**-**	**(216,655)**	**(216,655)**
Total deferred tax liabilities	**(58,332)**	**(21,075)**	**(216,655)**	**(296,062)**
Net deferred tax asset/(liabilities)	**122,836**	**(6,397)**	**(267,385)**	**(150,946)**

In thousand Armenian drams	As of 31 December 2014	Recognized in the statement of profit or loss	Recognized in other comprehensive income	As of 31 December 2015
Financial assets available-for-sale	15,856	-	34,874	50,730
Loans and borrowings to customers	16,865	10,639	-	27,504
Current accounts and deposits of clients	260	(260)	-	-
Other liabilities	92,594	10,340	-	102,934
Total deferred tax asset	125,575	20,719	34,874	181,168
Current accounts and deposits of clients	-	(7,167)	-	(7,167)
Loans and advances to banks and other financial institutions	(7,379)	(5,458)	-	(12,837)
Property, plant and equipment and intangible assets	(11,829)	(3,817)	-	(15,646)
Other assets	(8,695)	5,509	-	(3,186)
Contingent liabilities	(30,755)	11,259	-	(19,496)
Total deferred tax liabilities	(58,658)	326	-	(58,332)
Net deferred tax asset	66,917	21,045	34,874	122,836

14 Earnings per share

In thousand Armenian drams	**2016**	2015
Profit for the year	**1,089,475**	941,681
Weighted average number of ordinary shares	**1,337,077**	1,277,501
Earnings per share – basic	**0.81**	0.74

15 Cash and cash equivalents

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Cash on hand	**9,850,129**	8,916,062
Correspondent accounts with CBA	**25,869,141**	26,015,976
Nostro accounts with other banks	**2,898,463**	4,239,399
Total cash and cash equivalents	**38,617,733**	39,171,437

As of 31 December 2016 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 10,650,734 thousand (2015: AMD 14,201,341 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.

Cash and cash equivalents are not impaired and overdue.

As of 31 December 2016 the Bank did not have a nostro account (31 December 2015: one nostro account, the balance of which amounts to AMD 2,761,989 thousand) the balance of which exceedes 10% of equity.

Non-cash transaction performed by the Bank as of 31 December 2016 represents the repayment of loans with the amount of AMD 137,234 thousand by tangible assets (2015: AMD 665,745 thousand).

16 Amounts due from banks and other financial institutions

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Amounts due from banks		
Loans	**3,880,848**	2,179,189
Credit card settlement deposit with the CBA	**290,000**	320,000
Deposits with foreign banks	**272,117**	278,516
Reverse repurchase agreements	**5,008,629**	-
Other balances	**36,511**	37,849
Total	**9,488,105**	2,815,554
Amounts due from other financial institutions		
Loans	**1,345,098**	2,113,772
Reverse repurchase agreements	**2,455,331**	1,592,464
Other balances	**24**	34
	3,800,453	3,706,270
Impairment allowance for amounts due from banks and other financial institutions	**(13,451)**	(24,488)
Total	**3,787,002**	3,681,782
Total amounts due from banks and other financial institutions	**13,275,107**	6,497,336

As of 31 December 2016 included in loans and advances with foreign banks is AMD 65,087 thousand (2015: AMD 65,061 thousand) which represents a blocked deposit for membership in Master Card payment system, as well as a blocked AMD 190,672 thousand for membership in Visa payment system (2015: AMD 190,597 thousand), as well as AMD 16,357 thousand (2015: AMD 22,857 thousand) thousand in respect of guarantee issued from foreign bank.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2016 are presented as follows:

In thousand Armenian drams	**2016**		2015	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
RA Government securities	**7,510,133**	**7,463,960**	1,636,615	1,592,464
Total assets pledged and loans under reverse repurchase agreements	**7,510,133**	**7,463,960**	1,636,615	1,592,464

None of loans and advances to banks are impaired or past due.

Movement of disposal of impairment losses due from other financial institutions is as follows:

In thousand Armenian drams	Total
01 January 2015	22,396
Net reversal for the year	(18,052)
Net recoery for the year	20,144
31 December 2015	**24,488**
Net reversal for the year	**(11,037)**
31 December 2016	**13,451**

As of 31 December 2016 the Bank has no financial institution (2015: nil), whose balances exceed 10% of equity.

17 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 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 and other trading liabilities		**162,677**	**847**

In thousand Armenian drams			As of 31 December 2015
	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts			
Foreign exchange swap contracts	1,935,000	3,214	-
Other swap contracts	487,402	-	1,340
Total derivative financial instruments and other trading liabilities		3,214	1,340

18 Available for sale investments

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
RA state bonds	**26,081,268**	15,054,602
Corporate bonds	**764,837**	34,260
Corporate shares	**55,839**	55,839
Total investments	**26,901,944**	15,144,701

All debt securities have fixed coupons.

Unquoted available for sale bonds are measured at fair value using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available for sale securities by their effective interest rates and maturities comprise:

In thousand Armenian drams	2016		2015	
	%	Maturity	%	Maturity
RA state bonds	**4.74%-16.35%**	**2017-2036**	6.85% - 15.73%	2016-2032

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.

As of 31 December 2015 securities pledged under repurchase agreements at fair value of AMD 1,023,313 thousand for a period not exceeding 6 months are included in unquoted government bonds available for sale. In 2015 they are reclassified as securities pledged under repurchase agreements as a separate line on the balance sheet.

19 Loans and advances to customers

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Loans	**55,193,382**	55,326,819
Overdrafts and credit lines	**6,058,277**	4,248,660
Credit card loans	**6,111,372**	8,053,648
Reverse repurchase agreements	**346,342**	-
Financial lease	**89,051**	80,493
Factoring	**38,055**	-
	67,836,479	67,709,620
Less allowance for loan impairment	**(1,687,532)**	(1,626,493)
Total loans and advances to customers	**66,148,947**	66,083,127

As of 31 December 2016 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 375,267 thousand.

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

In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
										2016
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**

In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
										2015
Loans	4,446,748	1,579,191	3,648,185	25,759,632	5,055,993	5,865,522	12,675,915	5,468,883	3,209,551	67,709,620
Less allowance for loan impairment	(320,630)	(29,656)	(90,266)	(266,849)	(127,592)	(271,348)	(155,168)	(54,689)	(310,295)	(1,626,493)
Net loans	4,126,118	1,549,535	3,557,919	25,492,783	4,928,401	5,594,174	12,520,747	5,414,194	2,899,256	66,083,127

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

In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
										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/recoveries	**(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**

In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Transport and commu-nication	Service	Consumer	Mortgage	Other	Total
										2015
As of 1 January 2015	108,971	14,861	27,374	822,587	16,257	80,396	346,274	46,269	157,308	1,620,297
Charge/(Reversal) for the year	420,480	65,607	68,357	(33,473)	231,006	81,878	(14,922)	(3,462)	192,477	1,007,948
Amounts written off/ recoveries	(208,821)	(50,812)	(5,465)	(522,265)	(119,671)	109,074	(176,184)	11,882	(39,490)	(1,001,752)
As of 31 December 2015	320,630	29,656	90,266	266,849	127,592	271,348	155,168	54,689	310,295	1,626,493
Individual impairment	187,107	13,010	49,925	9,738	-	224,012	28,963	-	283,286	796,041
Collective impairment	133,523	16,646	40,341	257,111	127,592	47,336	126,205	54,689	27,009	830,452
	320,630	29,656	90,266	266,849	127,592	271,348	155,168	54,689	310,295	1,626,493
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	472,852	131,713	106,501	48,561	-	1,516,398	55,452	-	508,601	2,840,078

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

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
State owned enterprises	**456,417**	496,972
Privately held companies	**39,597,013**	38,336,062
Individuals	**19,935,283**	19,484,684
Sole proprietors	**7,847,766**	9,391,902
	67,836,479	67,709,620
Less allowance for loan impairment	**(1,687,532)**	(1,626,493)
Total loans and advances to customers	**66,148,947**	66,083,127

Loans to individuals are presented below:

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Credit card loans	**6,089,814**	7,719,411
Mortgage loans	**6,870,220**	5,468,883
Gold	**4,510,565**	4,641,977
Reverse repurchase agreements	**346,342**	-
Car loans	**5,229**	12,751
Consumer and other loans	**2,113,113**	1,641,662
Total loans and advances to individuals	**19,935,283**	19,484,684

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Gross investment in finance leases, receivable:		
Not later than 1 year	**37,310**	33,083
1-5 years	**65,424**	62,306
	102,734	95,389
Unearned future finance income on finance leases		
Not later than 1 year	**(1,471)**	(2,243)
1-5 years	**(12,212)**	(12,653)
	(13,683)	(14,896)
Net investment in finance leases	**89,051**	80,493

As of 31 December 2016 the allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 7,453 thousand (2015: AMD 1,720 thousand). Implied interest rate of the lease amounts to 9%-16% (2015: 10%-16%).

19.1 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.

Analysis of past due loans by sector is provided below.

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**

In thousand Armenian drams					As of 31 December 2015
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Industry	-	771	4,879	49,912	55,562
Agriculture	8,761	1,299	2,968	3,652	16,680
Trade	76,707	66,942	8,945	196,258	348,852
Consumer	18,535	28,405	3,546	23,023	73,509
Mortgage	-	-	-	1,922	1,922
Service	-	20,533	-	-	20,533
Transport and Communication	864	5,865	-	-	6,729
Other	4,352	36,394	-	7,574	48,320
Total	109,219	160,209	20,338	282,341	572,107

Not impaired loans and advances

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

In thousand Armenian drams	**2016 (%)**	2015 (%)
Industry	**3.52**	3.36
Agriculture	**3.83**	-
Construction	**1.04**	-
Transport and communication	**0.87**	-
Trading	**1.31**	0.86
Service	**-**	1.12
Consumer	**0.93**	0.76
Mortgage	**-**	0.10
Other	**6**	0.20

Individually impaired loans and advances

Before taking into account cash flows occurring from collaterals, individually impaired loans and advances to customers amount to AMD 1,610,695 thousand (2015: AMD 2,840,078 thousand). As of 31 December 2016 the fair value of collaterals of the Bank's individually impaired loans amount to AMD 1,780,039 thousand (2015: AMD 3,110,880 thousand). Collaterals consist of real estate and moveable property.

19.2 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:

- overdue 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.

19.3 Analysis of collateral

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

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Real estate	**46,825,318**	46,989,814
Movable property	**282,339**	600,256
Inventories	**1,206,771**	386,212
Guarantees of enterprises and individuals	**1,001,971**	1,586,335
Precious metals, gold	**5,707,812**	5,584,363
Cash flows	**7,483,498**	6,765,260
Cash	**519,658**	1,866,865
Securities	**4,269,380**	3,881,518
Other collateral	**539,732**	48,997
Total loans and advances, gross	**67,836,479**	67,709,620

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 retail customers

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.

19.4 Significant credit exposures

As of 31 December 2016 the Bank has two borrowers or groups of connected borrowers (2015: three), whose loan balances exceed 10% of equity. The total amount of such loans as of 31 December 2016 is AMD 7,210,623 thousand (2015: AMD 9,043,056 thousand).

19.5 Assets under lien

As of 31 December 2016, loans to customers in amount of AMD 3,216,361 thousand (2015: AMD 4,480,452 thousand) serve as collateral for other borrowings.

19.6 Loan maturities

The maturity of the loan portfolio is presented in Note 33, which shows the remaining period from the reporting date to the contractual maturity of the loans.

As of 31 December 2016 and 2015 the estimated fair value of loans and advances to customers approximates its carrying value (Note 31).

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 34. The information on related party balances is disclosed in Note 30.

20 Property, plant and equipment and intangible assets

In thousand Armenian drams	Land and buildings	Computers and communication equipment	Fixtures and fittings	Vehicles	Leasehold improve-ments	Intangible assets	Total
COST							
As of 1 January 2015	1,736,702	1,408,039	607,096	122,650	194,394	474,142	4,543,023
Additions	316	290,805	62,873	-	2,581	26,820	383,395
Disposals	-	(309)	-	-	-	-	(309)
Reclassification	(4,716)	(190)	-	-	4,906	-	-
As of 31 December 2015	**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)**
As of 31 December 2016	**1,898,443**	**1,739,525**	**721,546**	**122,650**	**245,116**	**503,259**	**5,230,539**
ACCUMULATED DEPRECIATION							
As of January 1, 2015	244,155	962,379	386,144	45,267	117,411	142,602	1,897,958
Amortization and depreciation of the year	55,887	218,669	88,442	23,111	26,041	47,595	459,745
Disposal	-	(309)	-	-	-	-	(309)
As of 31 December 2015	**300,042**	**1,180,739**	**474,586**	**68,378**	**143,452**	**190,197**	**2,357,394**
Amortization and depreciation of the year	**59,719**	**195,677**	**84,402**	**21,507**	**23,329**	**45,088**	**429,722**
Disposal	**-**	**(38,224)**	**(31,810)**	**-**	**-**	**-**	**(70,034)**
As of 31 December 2016	**359,761**	**1,338,192**	**527,178**	**89,885**	**166,781**	**235,285**	**2,717,082**
CARRYING VALUE							
As of 31 December 2016	**1,538,682**	**401,333**	**194,368**	**32,765**	**78,335**	**267,974**	**2,513,457**
As of 31 December 2015	1,432,260	517,606	195,383	54,272	58,429	310,765	2,568,715

Fully depreciated items

As of 31 December 2016 fixed assets included fully depreciated assets in amount of AMD 1,145,097 thousand (2015: AMD 910,143 thousand).

As of 31 December 2016 intangible assets included fully depreciated assets in amount of AMD 66,639 thousand (2015: AMD 33,638 thousand).

Fixed assets in the phase of installation

As of 31 December 2016 fixed assets included assets in the phase of installation in the amount of AMD 39,184 thousand (2015: AMD 149,839 thousand) which are not amortized and are classified by their types.

Restrictions on title of fixed assets and intangible assets

As of 31 December 2016 the Bank does not possess any fixed assets and intangible assets pledged as security for liabilities or whose title is otherwise restricted (2015: nil).

Contractual commitments

As of 31 December 2016 the Bank had contractual commitments in respect of acquisition of property, plant and equipment amounting to AMD 454 thousand (2015: AMD 5,143 thousand).

As of 31 December 2016 the Bank had no contractual commitments in respect of intangible assets (2015: nil).

21 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 2016**	As of 31 December 2015
Property	**677,800**	746,796
Other assets	**63**	63
Total repossessed assets	**677,863**	746,859

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.

22 Other assets

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Receivables under money transfer and clearing systems	**687,460**	702,286
Other receivables	**61,398**	51,127
	748,858	753,413
Less allowance for impairment	**(24,361)**	(21,425)
Total other financial assets	**724,497**	731,988
Prepayments	**94,813**	147,778
Precious metals	**17,312**	456,506
Materials and supplies	**63,743**	62,318
Property out of use	**-**	32,207
Other	**594**	573
Total other non-financial assets	**176,462**	699,382
Total other assets	**900,959**	1,431,370

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

In thousand Armenian drams	Total
As of January 1, 2015	17,866
Reversal for the year	(29,193)
Net recovery	32,752
As of 31 December 2015	21,425
Charge for the year	**3,433**
Net amounts written-off	**(497)**
As of 31 December 2016	**24,361**

23 Amounts due to banks

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Loans from CBA	**1,207,694**	881,119
Loans from commercial banks	**1,289,575**	3,214,890
Vostro accounts	**5,511**	149,474
Repurchase agreements	**-**	1,000,495
Other liabilities	**16,011**	801
	2,518,791	5,246,779

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

As of 31 December 2016 no bank has balances in the Bank, the residual of which exceeds 10% of the Bank's equity (2015: nil).

During 2016 and 2015 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

24 Current accounts and deposits from customers

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Current accounts and demand deposits		
- Retail	**13,427,080**	11,883,410
- Corporate	**18,010,313**	20,912,679
- Government of the Republic of Armenia and state institutions	**3,822,612**	3,433,952
Term deposits		
- Retail	**22,109,592**	19,461,177
- Corporate	**5,506,183**	3,645,938
	62,875,780	59,337,156

As of 31 December 2016, the Bank has customer deposit balances of AMD 1,464,747 thousand (2015: AMD 1,046,977 thousand) that serve as collateral for loans granted by the Bank.

Concentration of current accounts and deposits of customers

As of 31 December 2016 the Bank has three customers or groups of connected customers, whose account and deposit balances exceed 10% of the Bank's equity. As of 31 December 2016 the balances amount to AMD 18,550,412 thousand (2015: AMD 23,352,938 thousand).

Time deposits have fixed interest rates.

During 2016 and 2015 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

25 Other borrowings

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Borrowings from international and other financial institutions	**39,658,072**	36,539,681
Borrowings from RA Government	**1,914,039**	2,597,006
Borrowings from resident financial institutions	**4,156,925**	1,765,786
Total other borrowings	**45,729,036**	40,902,473

Concentration of deposits and balances from other financial institutions

As of 31 December 2016 the Bank has six counterparties (2015: five), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2016 is AMD 35,916,527 thousand (2015: AMD 30,989,901 thousand).

The loans from the Government of the Republic of Armenia include amounts lent under an agreement with the CBA (acting as the agent of the Government of the Republic of Armenia) and the Bank related to Economy Stabilization Loan program, Small and Medium Size Enterprises Development program and Small and Medium Size Enterprises access to financing program. According to the agreement the CBA provides loans to the Bank for refinancing qualifying sub-loans disbursed by the Bank to customers. The Bank bears the credit risk for these sub-loans.

Other borrowings have fixed and variable interest rates.

During 2016 and 2015 the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

26 Debt securities issued

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Coupon bonds	**3,812,886**	3,323,481
Total debt securities issued	**3,812,886**	3,323,481

The Bank has not repurchased any of its own debt during the year (2015: nil).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2015: nil).

Issued bonds include the following:

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 1 December 2015 the Bank has issued 80,000 ordinary bonds with the total amount of AMD 2,000,000 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%.

27 Other liabilities

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Salary and similar payables	**513,458**	434,800
Payables to suppliers	**100,358**	84,057
Other financial liabilities	**232,571**	87,574
Total other financial liabilities	**846,387**	606,431
Other taxes payable	**83,307**	88,845
Other non-financial liabilities	**27,402**	49,386
Total other non-financial liabilities	**110,709**	138,231
Total other liabilities	**957,096**	744,662

28 Share capital

As of 31 December 2016 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 shareholders of the Bank may be specified as follows:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Flash LLC	**6,402,640**	**72.73%**
European Bank for Reconstruction and Development	**1,596,880**	**18.14%**
Rural Impulse Fund JSC	**755,315**	**8.58%**
Other	**48,820**	**0.55%**
	8,803,655	**100%**

As of 31 December 2016, 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.

In 2016 the Bank issued and placed 483,230 additional shares with amount of AMD 17,590 as a result of which the share capital increased in the amount of 2,416,150 thousand and a share premium of AMD 6,083,865 thousand was formed.

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 books.

29 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 2016**	As of 31 December 2015
Liabilities in respect of loans and credit lines	**3,073,883**	1,442,972
Liabilities in respect of credit cards	**4,081,670**	4,001,245
Undrawn overdrafts	**669,290**	26,713
Guarantees and letters of credit	**154,564**	212,515
Factoring contracts	**109,272**	100,000
Total commitments and contingent liabilities	**8,088,679**	5,783,445

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 building and premises.

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Not later than 1 year	**377,459**	349,520
1- 5 years	**759,154**	672,150
Total operating lease commitments	**1,136,613**	1,021,670

Capital Commitments

Information on capital commitments is disclosed in Note 20.

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.

Starting 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.

30 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of 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	**As of 31 December 2016**		As of 31 December 2015	
	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 and advances to customers				
Loans outstanding as of January 1	**-**	**430,984**	-	161,132
Loans issued during the year	**-**	**3,427,527**	-	1,732,169
Loan repayments during the year	**-**	**(3,472,137)**	-	(1,462,317)
Loans outstanding as of 31 December gross	**-**	**386,374**	-	430,984
Less allowance for loan impairment	**-**	**(4,507)**	-	(11,399)
Loans outstanding as of December 31	**-**	**381,867**	-	419,585
Amounts due to financial institutions				
As of January 1	**2,081,326**	-	4,342,988	-
Increase	**439,134**	-	882,998	-
Decrease	**(1,695,923)**	**-**	(3,144,660)	-
As of December 31	**824,537**	**-**	2,081,326	**-**
Amounts due to customers				
Deposits as of January 1	**9,487,669**	**6,322,342**	6,410,824	7,124,630
Deposits received during the year	**113,681,275**	**39,589,886**	145,041,648	29,239,269
Deposits repaid during the year	**(120,638,081)**	**(37,910,368)**	(141,964,803)	(30,041,557)
Deposits as of December 31	**2,530,863**	**8,001,860**	9,487,669	6,322,342
Guarantees issued	**-**	**-**	28,785	-

In thousand Armenian drams	As of 31 December 2016		As of 31 December 2015	
	Shareholders and parties related with them	**Key mana-gement personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of profit or loss and other comprehensive income				
Interest income on loans	**-**	**60,190**	-	39,164
Credit (loss)/recovery	**-**	**6,892**	-	(8,982)
Fee and commission income	**2,567**	**853**	2,327	6,890
Gains less losses from trading in foreign currencies	**(23,310)**	**5,544**	48,744	3,014
Net loss from foreign currency revaluation	**85,766**	**(8,869)**	(55,020)	(5,018)
Interest expenses from amounts due to financial institutions	**(166,500)**	**-**	(361,224)	-
Interest expenses from amounts due to customers	**(113,039)**	**(207,228)**	(47,961)	(300,912)
Fee and commission expense	**(21,440)**	**-**	(34,397)	-
Operating lease expenses	**(17,400)**	**(55,627)**	(17,400)	(55,627)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2016	2015
Salaries and other short-term benefits	**277,753**	259,775
Total key management compensation	**277,753**	259,775

The loans issued to parties related with the Bank are repayable in 1-12 years and have interest rate of 6%-17% (2015: 6%-18%).

31 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).

31.1 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 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 and advances 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**
Debt securities issued	**-**	**3,812,886**	**-**	**3,812,886**	**3,812,886**
Other liabilities	**-**	**846,387**	**-**	**846,387**	**846,387**

In thousand Armenian drams					As of 31 December 2015
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**39,171,437**	**-**	**39,171,437**	**39,171,437**
Amounts due from banks and other financial institutions	**-**	**6,497,336**	**-**	**6,497,336**	**6,497,336**
Loans and advances to customers	**-**	**66,058,101**	**-**	**66,058,101**	**66,083,127**
Other assets	**-**	**731,988**	**-**	**731,988**	**731,988**
FINANCIAL LIABILITIES					
Amounts due to banks	-	5,231,994	-	5,231,994	5,246,779
Current accounts and deposits from customers	-	59,337,156	-	59,337,156	59,337,156
Other borrowings	-	40,902,473	-	40,902,473	40,902,473
Debt securities issued	-	3,323,481	-	3,323,481	3,323,481
Other liabilities	-	606,431	-	606,431	606,431

Amounts due from banks and other 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 6% to 24% per annum (2015: 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.

Amount due to banks, 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.

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**As of 31 December 2016**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Available for sale securities	**-**	**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**

In thousand Armenian drams				As of 31 December 2015
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Available for sale securities	**-**	15,088,862	-	15,088,862
Unquoted investments	-	3,214	-	3,214
Total	-	15,092,076	-	15,092,076
FINANCIAL LIABILITIES				
Derivative financial assets	-	1,340	-	1,340
Total	-	1,340	-	1,340
NET FAIR VALUE	-	15,090,736	-	15,090,736

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

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 18 for further information about this equity investments.

32 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 2016
	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**	**Related amounts that are not offset in the statement of financial position**		
				Financial instruments in the statement of financial position	**Cash collateral received**	**Net**
Financial assets						
Reverse repurchase agreements (Note 16)	**7,463,960**	**-**	**7,463,960**	**(7,463,960)**	**-**	**-**

In thousand Armenian drams						As at 31 December 2015
	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	Related amounts that are not offset in the statement of financial position		
				Financial instruments in the statement of financial position	Cash collateral received	Net
FINANCIAL ASSETS						
Reverse repurchase agreements (Note 16)	1,592,464	-	1,592,464	(1,592,464)	-	-

33 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 34.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 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	687,818	297,498	***13,093,804***	181,303	-	***181,303***	**13,275,107**
Derivative financial assets	162,677	-	-	***162,677***	-	-	***-***	**162,677**
Available for sale securities	684	3,611,056	5,686,919	***9,298,659***	16,662,060	941,225	***17,603,285***	**26,901,944**
Loans and advances to customers	3,266,878	6,084,191	17,096,417	***26,447,486***	30,082,992	9,618,469	***39,701,461***	**66,148,947**
Other assets	724,497	-	-	***724,497***	-	-	***-***	**724,497**
Total assets	**54,880,957**	**10,383,065**	**23,080,834**	***88,344,856***	**46,926,355**	**10,559,694**	***57,486,049***	**145,830,905**
LIABILITIES								
Amounts due to banks	282,732	976,169	322,341	***1,581,242***	937,549	-	***937,549***	**2,518,791**
Current accounts and deposits from customers	36,734,462	12,112,013	13,191,738	***62,038,213***	822,159	15,408	***837,567***	**62,875,780**
Derivative financial liabilities	847	-	-	***847***	-	-	***-***	**847**
Other borrowings	495,936	3,023,514	6,529,019	***10,048,469***	31,698,330	3,982,237	***35,680,567***	**45,729,036**
Debt securities issued	15,467	9,839	967,880	***993,186***	2,819,700	-	***2,819,700***	**3,812,886**
Other liabilities	846,387	-	-	***846,387***	-	-	***-***	**846,387**
Total liabilities	**38,375,831**	**16,121,535**	**21,010,978**	***75,508,344***	**36,277,738**	**3,997,645**	***40,275,383***	**115,783,727**
Net position	**16,505,126**	**(5,738,470)**	**2,069,856**	**12,836,512**	**10,648,617**	**6,562,049**	**17,210,666**	**30,047,178**
Accumulated gap	**16,505,126**	**10,766,656**	**12,836,512**		**23,485,129**	**30,047,178**		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2015
ASSETS								
Cash and cash equivalents	39,171,437	-	-	*39,171,437*	-	-	-	39,171,437
Amounts due from banks and financial institutions	3,112,532	2,138,121	357,793	*5,608,446*	290,374	598,516	*888,890*	6,497,336
Derivative financial assets	3,214	-	-	*3,214*	-	-	-	3,214
Available for sale securities	-	384,275	6,524,371	*6,908,646*	5,632,858	2,603,197	*8,236,055*	15,144,701
Loans and advances to customers	4,677,947	7,517,099	15,947,563	*28,142,609*	30,853,464	7,087,054	*37,940,518*	66,083,127
Other assets	731,988	-	-	*731,988*	-	-	-	731,988
Total assets	47,697,118	10,039,495	22,829,727	*80,566,340*	36,776,696	10,288,767	*47,065,463*	127,631,803

In thousand Armenian drams	2015							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
LIABILITIES								
Amounts due to banks	2,442,929	1,199,813	972,149	*4,614,891*	631,888	-	*631,888*	5,246,779
Current accounts and deposits from customers	38,248,070	3,155,451	17,086,181	*58,489,702*	836,373	11,081	*847,454*	59,337,156
Derivative financial liabilities	1,340	-	-	*1,340*	-	-	-	1,340
Other borrowings	308,408	4,862,578	11,893,453	*17,064,439*	23,318,688	519,346	*23,838,034*	40,902,473
Debt securities issued	10,400	10,581	883,750	*904,731*	2,418,750	-	*2,418,750*	3,323,481
Other liabilities	606,431	-	-	*606,431*	-	-	-	606,431
Total liabilities	41,617,578	9,228,423	30,835,533	*81,681,534*	27,205,699	530,427	*27,736,126*	109,417,660
Net position	6,079,540	811,072	(8,005,806)	(1,115,194)	9,570,997	9,758,340	19,329,337	18,214,143
Accumulated gap	6,079,540	6,890,612	(1,115,194)		8,455,803	18,214,143		

34 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.

34.1 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.

34.1.1 Risk concentrations

Geographical sectors

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

34.1.2 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 19.4.

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 19.3.

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.

34.2 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. Non-trading positions are managed and monitored using other sensitivity analyses.

34.2.1 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. 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 2016 and 2015 for interest bearing assets and liabilities.

	2016 Average effective interest rate, %			2015 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	AMD	USD	Other currencies
Interest bearing assets						
Amounts due from banks and financial institutions	**16.19**	**2.93**	**-**	16.15	6.89	-
Available for sale investments	**9.29**	**6.03**	**-**	10.33	6.0	-
Loans to customers	**14.57**	**9.82**	**7.09**	15.45	10.07	1.56
Interest bearing liabilities						
Amounts due to banks	**7.84**	**2.01**	**0.39**	8.25	2.95	0.5
Current accounts and deposits from customers						
-Current accounts and demand deposits	**0.1**	**0.1**	-	0.01	0.01	0.01
-Term deposits	**10.95**	**6.03**	-	10.73	6.92	-
Other borrowings	**8.15**	**5.71**	-	10.02	5.13	-
Debt securities issued	**13.00**	**7.14**	-	13.00	7.5	-

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 2016, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2016 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset 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							**2016**
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+3**	**-**	**(76,216)**	**(8)**	**(789,578)**	**(137,574)**	**(1,003,376)**
USD	**+2**	**(286,063)**	**-**	**-**	**-**	**-**	**(286,063)**
AMD	**(3)**	**-**	**77,809**	**9**	**870,848**	**183,092**	**1,131,758**
USD	**(2)**	**286,063**	**-**	**-**	**-**	**-**	**286,063**

In thousand Armenian drams							2015
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+3	-	(50,919)	-	(146,218)	(290,211)	(487,348)
AMD	+2	(41,137)	-	-	-	-	(41,137)
USD	+2	(517,904)	-	-	(180,548)	-	(698,452)
AMD	(3)	-	63,374	-	218,822	579,937	862,133
AMD	(2)	41,137	-	-	-	-	41,137
USD	(2)	517,904	-	-	131,848	-	649,752

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 2016 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	2016		2015	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	**+5**	**(62,370)**	+5	(46,770)
EUR	**+5**	**18,309**	+5	(401)

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	**16,419,443**	**16,889,643**	**4,589,425**	**719,222**	**38,617,733**
Amounts due from banks and other financial institutions	**7,809,241**	**5,465,866**	**-**	**-**	**13,275,107**
Available for sale investments	**22,658,732**	**4,243,212**	**-**	**-**	**26,901,944**
Loans and advances to customers	**20,885,505**	**43,625,813**	**1,637,629**	**-**	**66,148,947**
Other financial assets	**211,508**	**187,948**	**32,624**	**292,417**	**724,497**
Total	**67,984,429**	**70,412,482**	**6,259,678**	**1,011,639**	**145,668,228**
LIABILITIES					
Amounts due to banks	**1,207,785**	**968,938**	**342,068**	**-**	**2,518,791**
Current accounts and deposits from customers	**27,344,856**	**32,839,411**	**2,306,818**	**384,695**	**62,875,780**
Other borrowings	**7,305,094**	**38,423,942**	**-**	**-**	**45,729,036**
Debt securities issued	**409,966**	**3,402,920**	**-**	**-**	**3,812,886**
Other financial liabilities	**733,742**	**109,233**	**3,405**	**7**	**846,387**
Total	**37,001,443**	**75,744,444**	**2,652,291**	**384,702**	**115,782,880**
Total 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**
Total financial assets	53,737,146	71,007,890	2,217,056	666,497	127,628,589
Total financial liabilities	33,089,152	73,389,198	2,225,070	712,900	109,416,320
Total effect of derivative financial instruments	(1,444,028)	1,445,902	-	-	1,874
Net position as of 31 December 2015	19,203,966	(935,406)	(8,014)	(46,403)	18,214,143
Commitments and contingent liabilities as of 31 December 2015	1,872,974	3,192,468	711,027	6,976	5,783,445

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

The liquidity management of the 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.

	Not audited	
	As of 31 December 2016	As of 31 December 2015
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**47.91%**	41.45%
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**209.89%**	166.51%

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities of 31 December 2016 based on contractual undiscounted repayment obligations. Refer to note 33 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.

In thousand Armenian drams						**As of 31 December 2016**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Total gross amount outflow**	**Total**
NON-DERIVATIVE LIABILITIES						
Amounts due to banks	**283,147**	**980,030**	**405,672**	**1,062,847**	**2,731,696**	**2,518,791**
Current accounts and deposits from customers	**36,795,679**	**12,127,477**	**13,388,185**	**848,790**	**63,160,131**	**62,875,780**
Other borrowings	**526,245**	**3,638,916**	**7,984,365**	**41,063,950**	**53,213,476**	**45,729,036**
Debt securities issued	**15,467**	**9,839**	**1,029,909**	**3,234,355**	**4,289,570**	**3,812,886**
Other financial liabilities	**846,387**	**-**	**-**	**-**	**846,387**	**846,387**
Total liabilities	**38,466,925**	**16,756,262**	**22,808,131**	**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**	**6,523**	**9,679**	**8,088,679**	**8,088,679**

In thousand Armenian drams	As of 31 December 2015					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow	Total
NON-DERIVATIVE LIABILITIES						
Amounts due to banks	2,443,634	1,202,395	1,032,002	728,414	5,406,445	5,246,779
Current accounts and deposits from customers	38,851,952	3,205,271	17,355,947	860,834	60,274,004	59,337,156
Other borrowings	322,687	5,148,382	13,198,697	26,421,360	45,091,126	40,902,473
Debt securities issued	13,249	54,860	1,008,861	2,693,613	3,770,583	3,323,481
Other financial liabilities	606,431	-	-	-	606,431	606,431
Total liabilities	42,237,953	9,610,908	32,595,507	30,704,221	115,148,589	109,416,320
DERIVATIVE FINANCIAL LIABILITIES						
Foreign exchange swap contracts						
Inflow	2,424,022	-	-	-	2,429,022	2,425,543
Outflow	2,423,769	-	-	-	2,423,769	2,423,769
Commitments and contingent liabilities	5,657,169	63,932	62,344	-	5,783,445	5,783,445

34.4 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.

35 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.

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 2016 and 2015 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.

	Not audited	
In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Tier 1 capital	**31,263,199**	21,547,287
Tier 2 capital	**1,102,060**	(315,027)
Total regulatory capital	**32,365,259**	21,232,260
Risk-weighted assets	**121,309,066**	108,493,919
Capital adequacy ratio	**26.68%**	19.57%

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.

36 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.

37 Events after the reporting period

Business Combintation

According to the merger agreement in 2017 the Bank obtained a control over Armenian Development Bank CJSC.

In 2017 as of the date, when financial statements were prepared the estimation of fair value of assets and liabilities acquired by the Bank and the accounting of business combination was in progress and accordingly, the Bank determined the fair values of the assets and liabilities as at 20 February 2017 initially.

The initial fair value of the acquired identifiable assets and liabilities is as follows:

In thousand Armenian drams	**Fair value at the moment of acquisition**
Asssets	**62,831,520**
Liabilities	**52,105,872**
Net identified liabilities	**10,725,648**
Net liabilities at the moment of acquisition	**15,129,999**