

Byblos Bank Armenia cjsc
Interim Financial Statements
for the three-month period ended
31 March 2018

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Byblos Bank Armenia ejsc
Interim Statement of Profit or Loss and Other Comprehensive Income for the three-month period ended
31 March 2018

		1 January 2018 31 March 2018	1 January 2017 31 March 2017
	Notes	AMD'000	AMD'000
Interest income	4	1,507,485	1,196,609
Interest expense	4	(1,012,559)	(735,387)
Net interest income	4	494,926	461,222
Fee and commission income		25,229	21,457
Fee and commission expense		(15,037)	(10,848)
Net fee and commission income		10,192	10,609
Net foreign exchange (loss)/gain		(5,126)	8,155
Net gain on available-for-sale financial assets		987	103,749
Other operating expenses, net		(21,033)	(29,928)
Operating income		479,946	553,807
Impairment losses	5	(56,998)	(69,131)
Personnel expenses		(161,306)	(121,803)
Other general administrative expenses	6	(101,701)	(88,286)
Profit before income tax		159,941	274,587
Income tax benefit	7	43,232	-
Profit for the period		203,173	274,587
Other comprehensive income for the period, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
Net change in fair value		323,586	118,238
Net change in fair value transferred to profit or loss		(1,078)	(83,576)
Other comprehensive income for the period, net of income tax		322,508	34,662
Total comprehensive income for the period		525,681	309,249

The financial statements as set out on pages 3 to 53 were approved by management on 14 April 2018 and were signed on its behalf by:

Hayk Stepanyan
Chief Executive Officer

Ani Sargsyan
Head of Finance and Administration

The interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Byblos Bank Armenia ejsc
Interim Statement of Financial Position as at 31 March 2018

	Notes	31 March 2018 AMD'000	31 December 2017 AMD'000
ASSETS			
Cash and cash equivalents	8	9,132,375	7,408,502
Available-for-sale financial assets	9	27,715,888	26,078,994
Amounts receivable under reverse repurchase agreements	10	6,836,951	10,049,975
Amounts due from banks	11	9,839,045	11,291,962
Loans to customers	12	32,841,208	28,540,823
Property, equipment and intangible assets	13	937,267	952,209
Other assets	14	939,673	797,374
Total assets		88,242,407	85,119,839
LIABILITIES			
Deposits and balances from banks	15	1,095,385	703,902
Current accounts and deposits from customers	16	47,790,266	45,269,985
Other borrowed funds	17	4,491,200	4,857,638
Subordinated loans from Parent	18	10,454,493	10,554,309
Deferred tax liabilities	7	37,431	-
Other liabilities		309,337	195,391
Total liabilities		64,178,112	61,581,225
EQUITY			
Share capital	19	23,825,100	23,825,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		1,813,904	1,491,396
Accumulated losses		(1,831,858)	(2,035,031)
Total equity		24,064,295	23,538,614
Total liabilities and equity		88,242,407	85,119,839

The interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Byblos Bank Armenia cjsc
Interim Statement of Cash Flows for the three-month period ended 31 March 2018

	Notes	1 January 2018 31 March 2018 AMD'000	1 January 2017 31 March 2017 AMD'000
CASH FLOWS USED IN OPERATING ACTIVITIES			
Interest receipts		1,027,714	793,115
Interest payments		(967,832)	(625,616)
Fee and commission receipts		25,279	20,851
Fee and commission payments		(15,024)	(10,825)
Net receipts from available-for-sale financial assets		986	103,748
Net receipts from foreign exchange		13,603	10,294
Tax payments (other than income tax)		(1,381)	(895)
Salaries and other payments to employees		(131,030)	(102,294)
Other general administrative expenses payments		(113,952)	(85,122)
Other payments		(17,119)	(10,043)
(Increase)/decrease in operating assets			
Available-for-sale financial assets		(768,413)	(491,490)
Amounts receivable under reverse repurchase agreements		3,197,071	(869,405)
Amounts due from banks		1,374,011	(2,355,941)
Loans to customers		(4,417,319)	128,811
Other assets		(181,207)	19,372
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		391,116	27,576
Current accounts and deposits from customers		2,389,978	1,506,439
Payments of other borrowed funds		(265,885)	(177,071)
Other liabilities		182,250	30,294
Net cash flows used in operations		1,722,846	(2,088,202)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(2,931)	(763)
Net cash flows used in investing activities		(2,931)	(763)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of convertible loan from a related party		-	3,020,578
Net cash flows from financing activities		-	3,020,578
Net increase in cash and cash equivalents		1,719,915	931,613
Effect of changes in exchange rates on cash and cash equivalents		3,774	(13,778)
Cash and cash equivalents at the beginning of the year		7,408,502	14,089,137
Cash and cash equivalents at the end of the period	8	9,132,191	15,006,972

The interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Byblos Bank Armenia cjsc
Interim Statement of Changes in Equity for the three-month period ended 31 March 2018

AMD'000	Share capital	Share premium	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2017	23,825,100	257,149	853,545	(3,058,187)	21,877,607
Total comprehensive income					
Profit for the period	-	-	-	274,587	274,587
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	118,238	-	118,238
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	(83,576)	-	(83,576)
Total other comprehensive income	-	-	34,662	-	34,662
Total comprehensive income for the period	-	-	34,662	274,587	309,249
Balance as at 31 March 2017	23,825,100	257,149	888,207	(2,783,600)	22,186,856
 Balance as at 1 January 2018	 23,825,100	 257,149	 1,491,396	 (2,035,031)	 23,538,614
Total comprehensive income					
Profit for the period	-	-	-	203,173	203,173
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	323,586	-	323,586
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	(1,078)	-	(1,078)
Total other comprehensive income	-	-	322,508	-	322,508
Total comprehensive income for the period	-	-	322,508	203,173	525,681
Balance as at 31 March 2018	23,825,100	257,149	1,813,904	(1,831,858)	24,064,295

The interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Byblos Bank Armenia cjsc (the Bank) was established in 2007 under the laws of the Republic of Armenia.

The principal activities of the Bank are deposit taking and customer account maintenance, lending, cash and settlement transactions and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank's registered head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The Bank has two branches.

The majority of the assets and liabilities are located in the Republic of Armenia.

(i) Shareholders

In August 2007 Byblos Bank SAL purchased 100% of the shares of ITB International Trade Bank cjsc and the Bank was renamed Byblos Bank Armenia cjsc.

During the year ended 31 December 2008 the European Bank for Reconstruction and Development and the OPEC Fund for International Development acquired 25% and 10% of the ordinary shares of Byblos Bank Armenia cjsc, respectively. In June 2016 EBRD and OPEC Fund for International Development disposed of their shares to Byblos Bank SAL, as a result of which as at 31 December 2016 Byblosbank SAL became 100% shareholder of the Bank.

The Bank is ultimately controlled by a single individual Francois Bassil.

(b) Armenian business environment

The Bank's operations are located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia.

The financial statements reflect management's assessment of the impact of Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates – note 12;
- estimates of fair values of financial assets and liabilities – note 25;
- fair value of forward and option instruments of loans from a related party and subordinated loans from Parent – notes 17 and 18.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. The minimum reserve deposit with the CBA is not considered to be a cash equivalents, due to restrictions on its withdrawalability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale, or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(v) *Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(vi) *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

(d) Property and equipment

(i) *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

– buildings	50 years
– computers and communication equipment	1-5 years
– fixtures and fittings	5-10 years
– motor vehicles	5 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(e) Intangible assets

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1-10 years.

(f) Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Repossessed assets are included in other assets.

Gains and losses on disposal of repossessed assets are recognized net in “other operating income” in profit or loss.

(g) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for the loan portfolio.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the impairment allowance for the period. In case the loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

(i) *Financial assets carried at amortized cost*

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

(iii) *Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(iv) *Non financial assets*

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognized, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognized as share premium.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(l) Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(m) Leases

(i) Operating – Bank as lessee

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

(n) New standards and interpretations not yet adopted

The following new standards, *amendments to standards*, and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these Financial Statements. The Bank plans to adopt these pronouncements when they become effective.

The following standards are expected to have a material impact on the Bank's financial statements in the period of initial application.

(a) IFRS 9 *Financial Instruments*

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

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

The Bank has applied IFRS 9 as issued in July 2014 from 1 January. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 31 March 2018 is within a range of AMD 50,000 thousand to

AMD 200,000 thousand, representing a reduction related to impairment requirements.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 31 March 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Bank has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

The management does not consider this impact material to disclose further assessment.

(b) Other standards

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

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *IFRS 16 Leases.*
- *IFRS 15 Revenue from Contracts with Customers.*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
- *Transfers of Investment Property (Amendments to IAS 40).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

4 Net interest income

	1 January 2018 31 March 2018 AMD'000	1 January 2017 31 March 2017 AMD'000
Interest income		
Loans to customers	729,771	573,095
Available-for-sale financial assets	630,751	560,536
Amounts due from banks	77,854	24,010
Amounts receivable under reverse repurchase agreements	67,359	38,631
Other	1,750	337
	1,507,485	1,196,609
Interest expense		
Current accounts and deposits from customers	716,639	474,908
Subordinated loans from Parent	169,365	158,180
Other borrowed funds	97,706	88,568
Deposits and balances from banks	16,302	13,731
Derivatives	12,547	-
	1,012,559	735,387
	494,926	461,222

5 Impairment losses

	1 January 2018 31 March 2018 AMD'000	1 January 2017 31 March 2017 AMD'000
Loans to customers	54,977	57,284
Other assets	2,021	11,847
	56,998	69,131

6 Other general administrative expenses

	1 January 2018 31 March 2018 AMD'000	1 January 2017 31 March 2017 AMD'000
Depreciation and amortisation	17,873	15,928
Maintenance of computer software	13,441	11,491
Repairs and maintenance	12,330	13,818
Insurance	8,870	7,974
Advertising and marketing	8,706	5,988
Professional services	6,840	6,613
Security	6,357	5,548
Taxes other than on income	5,361	4,757
Communications and information services	4,132	4,135
Travel expenses	4,070	1,094
Legal services	2,620	1,484
Office supplies	2,431	2,492
Membership expenses	1,888	1,875
Maintenance of cars	1,477	2,298
Trainings	1,344	406
Operating lease expenses	4	9
Other	3,957	2,376
	101,701	88,286

7 Income taxes

	1 January 2018 31 March 2018 AMD'000	1 January 2017 31 March 2017 AMD'000
Current period tax expense	-	-
Origination and reversal of temporary differences	43,232	-
Total income tax benefit	43,232	-

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

Reconciliation of effective tax rate for the three-month period ended 31 March 2018:

	31 March 2018 AMD'000	%	31 March 2017 AMD'000	%
Profit before tax	159,941		274,587	
Tax at the applicable tax rate	(31,988)	(20)	(54,917)	(20)
Non-deductible costs	181,450	113	80,456	29
Utilization of previously recognised tax loss	(106,230)	(66)	29,856	11
Current period loss for which no deferred tax asset is recognised	-	0	-	
Change in unrecognised deferred tax assets	-	0	(55,394)	(20)
	43,232	27	-	-

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 March 2018 and as at 31 March 2017.

Movements in temporary differences during the three-month period ended 31 March 2018 and 2017 are presented as follows:

31 March 2018 AMD'000	1 January 2018	Recognized in profit or loss	Recognized in other comprehensive income	31 March 2018
Cash and cash equivalents	(1,839)	163	-	(1,676)
Available-for-sale financial assets	(372,848)		(80,664)	(453,512)
Amounts receivable under reverse repurchase agreements	(20,100)	6,426		(13,674)
Amounts due from banks	(22,299)	7,283	-	(15,016)
Loans to customers	257,634	30,333	-	287,967
Property, equipment and intangible assets	(5,702)	(1,083)	-	(6,785)
Other assets	7,591	8	-	7,599
Tax loss carry-forward	167,473		-	167,473
Other liabilities	(9,910)	102	-	(9,808)
	-	43,232	(80,664)	(37,432)

31 March 2017 AMD'000	1 January 2017	Recognized in profit or loss	Recognized in other comprehensive loss	31 March 2017
Available-for-sale financial assets	(213,385)	-	(8,666)	(222,051)
	(213,385)	-	(8,666)	(222,051)

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	31 March 2018 AMD'000	31 March 2017 AMD'000
Temporary differences	-	276,970
Tax losses	56,756	330,458
	56,756	607,428

The tax losses of AMD 178,671 thousand and AMD 105,109 thousand expire in 2019 and 2020, respectively. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Bank can utilise the benefits therefrom.

(c) **Income tax recognized in other comprehensive income**

The tax effects relating to components of other comprehensive income for the three-month period ended 31 March 2018 and 2017 comprise the following:

AMD'000	31 March 2018			31 March 2017		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of available-for-sale financial assets	404,482	(80,896)	323,586	147,798	(29,560)	118,238
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(1,347)	269	(1,078)	(104,470)	20,894	(83,576)
Other comprehensive income	403,135	(80,627)	322,508	43,328	(8,666)	34,662

8 Cash and cash equivalents

	31 March 2018 AMD'000	31 December 2017 AMD'000
Cash on hand	338,270	424,579
Nostro accounts with the CBA, including obligatory reserves	7,956,601	6,064,886
Nostro accounts with other banks		
- OECD banks	110,324	104,951
- Other foreign banks	725,882	570,921
- Largest 5 Armenian banks	-	-
- Other Armenian banks	1,114	243,165
Total nostro accounts with other banks	837,320	919,037
Total cash and cash equivalents as shown in the statement of cash flows	9,132,191	7,408,502
Accrued interest	184	-
Total cash and cash equivalents as shown in the statement of financial position	9,132,375	7,408,502

No cash and cash equivalents are impaired or past due.

As at 31 March 2018 and 31 December 2017 the Bank has no banks, excluding balances with the CBA, whose balances exceeded 10% of the equity.

Nostro accounts with the CBA

Nostro accounts with the CBA are related to settlement activity and are available for withdrawal at the end of the year.

Banks are required to maintain a cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 18% of the amounts attracted in foreign currency. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation; however, if the Bank fails to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams and in foreign currency, the sanctions may apply.

As at 31 March 2018 included in nostro accounts with the CBA, is the amount of obligatory reserve of AMD 6,079,012 thousand for amounts attracted in Armenian drams and foreign currency (31 December 2017: AMD 5,233,294 thousand).

9 Available-for-sale financial assets

	31 March 2018 AMD'000	31 December 2017 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	26,424,229	24,801,931
- Securities of international financial institutions	922,110	904,098
- Corporate bonds issued by largest 5 Armenian bank	356,389	359,805
	27,702,728	26,065,834
Equity instruments		
- Corporate shares	13,160	13,160
	27,715,888	26,078,994

None of available-for-sale financial assets are impaired or past due.

Included in available-for-sale financial assets are non-quoted equity securities:

Name	Country of incorporation	Main activity	% Controlled		31 March 2018 AMD'000	31 December 2017 AMD'000
			31 March 2018	31 December 2017		
ArCa	Republic of Armenia	Payment system	1.25%	1.25%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

Investments without a determinable fair value

Available-for-sale equity investments stated at cost comprise unquoted equity securities in the money transfer industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

10 Amounts receivable under reverse repurchase agreements

	31 March 2018 AMD'000	31 December 2017 AMD'000
Amounts receivable from 5 largest Armenian banks	3,817,210	4,370,280
Amounts receivable from other Armenian banks	3,019,741	5,679,695
	6,836,951	10,049,975

As at 31 March 2018 the Bank has one bank (2017: two), whose balance exceeded 10% of equity. The gross value of this balance as at 31 March 2018 is AMD 3,019,741 thousand (31 December 2017: AMD 9,078,801 thousand).

Amounts receivable under reverse repurchase agreements are from reputable Armenian banks. None of them are past due or impaired.

Collateral

As at 31 March 2018 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of AMD 7,096,369 thousand (2017: AMD 10,234,433 thousand).

11 Amounts due from banks

	31 March 2018 AMD'000	31 December 2017 AMD'000
Credit card settlement deposit with the CBA	70,000	142,500
Term deposit in the CBA	2,304,158	-
Loans and deposits		
- Largest 5 Armenian banks	2,881,602	3,389,861
- Other Armenian banks	4,512,902	7,688,780
- OECD banks	70,383	70,821
Total loans and deposits	7,464,887	11,149,462
Total amounts due from banks	9,839,045	11,291,962

No amounts due from banks are impaired or past due.

As at 31 March 2018 included in loans and deposits with OECD banks is AMD 70,383 thousand (2017: AMD 70,821 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Credit card settlement deposit with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdrawability is restricted.

(b) Concentration of loans to banks

As at 31 March 2018 the Bank has one bank (2017: three), whose balances exceeded 10% of equity. The gross value of these balances as at 31 March 2018 is AMD 2,881,602 thousand (31 December 2017: AMD 8,263,611 thousand).

12 Loans to customers

	31 March 2018 AMD'000	31 December 2017 AMD'000
Loans to corporate customers		
Loans to large corporates	24,145,378	19,486,784
Loans to small and medium sized companies	967,276	1,075,849
Total loans to corporate customers	25,112,654	20,562,633
Loans to retail customers		
Mortgage loans	10,182,966	10,340,378
Consumer loans secured by real estate	1,072,660	1,131,612
Consumer loans with salary domiciliation	267,820	251,762
Credit card loans	256,424	233,828
Auto loans	149,261	175,259
Small business loans	133,951	147,260
Other	69,605	64,978
Total loans to retail customers	12,132,687	12,345,077
Gross loans to customers	37,245,341	32,907,710
Impairment allowance	(4,404,133)	(4,366,887)
Net loans to customers	32,841,208	28,540,823

Movements in the loan impairment allowance by classes of loans to customers for the three-month period ended 31 March 2018 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	4,131,870	235,017	4,366,887
Net charge	12,632	42,345	54,977
Write-offs	(1,011)	(16,720)	(17,731)
Balance at the end of the period	4,143,491	260,642	4,404,133

Movements in the loan impairment allowance by classes of loans to customers for the three-month period ended 31 March 2017 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	3,902,804	323,197	4,226,001
Net charge	(6,620)	63,904	57,284
Write-offs	(350,632)	(49,467)	(400,099)
Balance at the end of the period	3,545,552	337,634	3,883,186

(a) **Credit quality of loans to customers**

The following table provides information on the credit quality of loans to customers as at 31 March 2018:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	19,535,400	(224,657)	19,310,743	1.15%
Impaired loans:				
- overdue more than 1 year	4,609,978	(3,764,946)	845,032	81.7%
Total impaired loans	4,609,978	(3,764,946)	845,032	81.7%
Total loans to large corporates	24,145,378	(3,989,603)	20,155,775	16.5%
Loans to small and medium size companies				
Loans without individual signs of impairment	741,289	(8,525)	732,764	1.15%
Impaired loans:				
-overdue more than 1 year	225,987	(145,363)	80,624	64.3%
Total impaired loans	225,987	(145,363)	80,624	64.3%
Total loans to small and medium size companies	967,276	(153,888)	813,388	15.9%
Total loans to corporate customers	25,112,654	(4,143,491)	20,969,163	16.50%
Loans to retail customers				
Mortgage loans				
-not overdue	9,729,129	(19,458)	9,709,671	0.2%
- not overdue, but impaired	87,866	(19,331)	68,535	22.0%
- overdue less than 30 days	46,652	(21,926)	24,726	47.0%
- overdue 31-90 days	93,655	(44,018)	49,637	47.0%
- overdue 91-180 days	31,679	(14,889)	16,790	47.0%
- overdue 181-270 days	28,756	(13,515)	15,241	47.0%
- overdue more than 271 days	165,229	(77,658)	87,571	47.0%
Total mortgage loans	10,182,966	(210,795)	9,972,171	2.1%
Consumer loans secured by real estate				
- not overdue	973,183	(1,946)	971,237	0.2%
- not overdue, but impaired	32,591	(7,170)	25,421	22.0%
- overdue less than 30 days	16,384	(7,209)	9,175	44.0%
- overdue 31-90 days	17,744	(7,807)	9,937	44.0%
- overdue 91-180 days	6,898	(3,035)	3,863	44.0%
- overdue 181-270 days	4,944	(2,175)	2,769	44.0%
- overdue more than 271 days	20,916	(9,203)	11,713	44.0%
Total consumer loans secured by real estate	1,072,660	(38,545)	1,034,115	3.6%
Consumer loans with salary domiciliation				
- not overdue	263,823	(1,319)	262,504	0.5%
- not overdue, but impaired	791	(237)	554	30.0%
- overdue less than 30 days	3,206	(1,924)	1,282	60.0%
Total consumer loans with salary domiciliation	267,820	(3,480)	264,340	1.3%
Credit card loans				
- not overdue	251,943	(1,260)	250,683	0.5%
- not overdue, but impaired	4,481	(1,344)	3,137	30.0%
Total credit card loans	256,424	(2,604)	253,820	1.0%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Auto loans				
- not overdue	135,803	(272)	135,531	0.2%
- not overdue, but impaired	4,966	(497)	4,469	10.0%
- overdue less than 30 days	1,050	(210)	840	20.0%
- overdue 31-90 days	4,483	(897)	3,586	20.0%
- overdue 181-270 days	1,659	(332)	1,327	20.0%
- overdue more than 271 days	1,300	(260)	1,040	20.0%
Total auto loans	149,261	(2,468)	146,793	1.7%
Small business loans				
- not overdue	131,906	(1,319)	130,587	1.0%
- overdue 31-90 days	1,502	(1,051)	451	70.0%
- overdue more than 271 days	543	(380)	163	70.0%
Total small business loans	133,951	(2,750)	131,201	2.1%
Other retail loans				
- not overdue	69,605	-	69,605	0.0%
Total other retail loans	69,605	-	69,605	0.0%
Total loans to retail customers	12,132,687	(260,642)	11,872,045	2.15%
Total loans to customers	37,245,341	(4,404,133)	32,841,208	11.82%

The following table provides information on the credit quality of loans to customers as at 31 December 2017:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	14,838,009	(170,637)	14,667,372	1.1
Impaired loans:				
- overdue more than 1 year	4,648,775	(3,796,627)	852,148	81.7
Total impaired loans	4,648,775	(3,796,627)	852,148	81.7
Total loans to large corporates	19,486,784	(3,967,264)	15,519,520	20.4
Loans to small and medium size companies				
Loans without individual signs of impairment	709,291	(8,157)	701,134	1.2
Impaired loans:				
-overdue more than 1 year	366,558	(156,449)	210,109	42.7
Total impaired loans	366,558	(156,449)	210,109	42.7
Total loans to small and medium size companies	1,075,849	(164,606)	911,243	15.3
Total loans to corporate customers	20,562,633	(4,131,870)	16,430,763	20.1
Loans to retail customers				
Mortgage loans				
-not overdue	9,965,047	(19,930)	9,945,117	0.2
- not overdue, but impaired	60,694	(13,353)	47,341	22.0
- overdue less than 30 days	23,773	(11,173)	12,600	47.0
- overdue 31-90 days	58,210	(27,359)	30,851	47.0
- overdue 91-180 days	45,811	(21,531)	24,280	47.0
- overdue 181-270 days	41,871	(19,679)	22,192	47.0
- overdue more than 271 days	144,972	(68,137)	76,835	47.0
Total mortgage loans	10,340,378	(181,162)	10,159,216	1.8
Consumer loans secured by real estate				
- not overdue	1,037,067	(2,074)	1,034,993	0.2
- not overdue, but impaired	19,275	(4,240)	15,035	22.0
- overdue less than 30 days	5,270	(2,319)	2,951	44.0

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
- overdue 31-90 days	7,589	(3,339)	4,250	44.0
- overdue 91-180 days	18,064	(7,948)	10,116	44.0
- overdue 181-270 days	7,866	(3,461)	4,405	44.0
- overdue more than 271 days	36,481	(16,052)	20,429	44.0
Total consumer loans secured by real estate	1,131,612	(39,433)	1,092,179	3.5
Consumer loans with salary domiciliation				
- not overdue	249,550	(1,248)	248,302	0.5
- not overdue, but impaired	949	(285)	664	30.0
- overdue less than 30 days	515	(309)	206	60.0
- overdue 31-90 days	748	(449)	299	60.0
Total consumer loans with salary domiciliation	251,762	(2,291)	249,471	0.9%
Credit card loans				
- not overdue	228,287	(1,141)	227,146	0.5
- not overdue, but impaired	5,541	(1,662)	3,879	30.0
Total credit card loans	233,828	(2,803)	231,025	1.2
Auto loans				
- not overdue	161,829	(324)	161,505	0.2
- not overdue, but impaired	5,371	(537)	4,834	10.0
- overdue 31-90 days	5,100	(1,020)	4,080	20.0
- overdue 91-180 days	1,659	(332)	1,327	20.0
- overdue more than 271 days	1,300	(260)	1,040	20.0
Total auto loans	175,259	(2,473)	172,786	1.4
Small business loans				
- not overdue	139,392	(1,394)	137,998	1.0
- not overdue, but impaired	117	(35)	82	29.9
- overdue less than 30 days	2,500	(1,750)	750	70.0
- overdue more than 271 days	5,251	(3,676)	1,575	70.0
Total small business loans	147,260	(6,855)	140,405	4.7
Other retail loans				
- not overdue	64,978	-	64,978	0.0
Total other retail loans	64,978	-	64,978	0.0
Total loans to retail customers	12,345,077	(235,017)	12,110,060	1.90
Total loans to customers	32,907,710	(4,366,887)	28,540,823	13.3

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

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

- for non-impaired loans the Bank creates 1.1%-1.2% on commercial non-impaired loans considering the economic environment and market loss experience.
- for impaired loans a discount of between 10% and 70% to the originally appraised value is applied if the property pledged is sold and a delay from 6 to 18 months in obtaining proceeds from the foreclosure of collateral is assumed.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 March 2018 would be AMD 209,692 thousand lower/higher (31 December 2017: AMD 164,308 thousand lower/higher).

The impairment allowance on impaired loans to corporate customers would have been AMD 189,169 thousand higher (31 December 2017: AMD 200,288 thousand) if the market value of the collateral have been assessed 15% lower as at the reporting date.

During the three-month period ended 31 March 2018 the Bank didn't renegotiate any commercial loan that would otherwise be past due or impaired (31 December 2017: none). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

(ii) *Loans to retail customers*

The Bank estimates loan impairment for loans to retail customers based on its past historical and market loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include the following loss estimates:

- Not impaired retail loans – 0.2%-1%;

The cost associated with the collection of impaired loans will not exceed:

- mortgage loans - 47%
- consumer loans secured by real estate – 44%;
- auto loans – 20%;
- small business loans – 70%;
- credit cards and consumer loans with salary domiciliation – 30%-60%.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 March 2018 would be AMD 356,161 thousand lower/higher (31 December 2017: AMD 363,302 thousand lower/higher).

(c) *Analysis of collateral*

(i) *Loans to corporate customers*

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 March 2018		Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Real estate	9,549,648	-	9,549,648
Bank account turnover	5,732,451	-	5,732,451
No collateral	4,761,409	-	-
Total loans without individual signs of impairment	20,043,508	-	15,282,099
Overdue or impaired loans			
Real estate	925,658	925,658	-
Total overdue or impaired loans	925,658	925,658	-
Total loans to corporate customers	20,969,166	925,658	15,282,099

31 December 2017		Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Real estate	8,306,451	-	8,306,451
Bank account turnover	5,621,613	-	5,621,613
No collateral	1,440,442	-	-
Total loans without individual signs of impairment	15,368,506	-	13,928,064
Overdue or impaired loans			
Real estate	1,062,257	1,062,257	-
Total overdue or impaired loans	1,062,257	1,062,257	-
Total loans to corporate customers	16,430,763	1,062,257	13,928,064

The tables above exclude overcollateralisation.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Securities received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Mortgage loans and consumer loans secured by real estate are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans and consumer loans secured by real estate with a loan-to-value ratios of a maximum of 70% and 50% respectively at the date of loan issuance. Small business loans are secured by real estate. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries.

(iii) Repossessed collateral

During the three-month period ended 31 March 2018, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 21,045 thousand (31 December 2017: AMD 38,975 thousand). Part of the repossessed collateral in the amount of AMD 12,800 thousand was sold during the three-month period ended 31 March 2018 (31 December 2017: AMD 629,856 thousand).

As at 31 March 2018 and 31 December 2017, the repossessed collateral comprises:

	31 March 2018	31 December 2017
	AMD'000	AMD'000
Real estate	712,397	703,129
Other assets	3,800	4,824
Total repossessed collateral	716,197	707,953

The Bank's intention is to sell these assets as soon as it is practicable.

(d) Asset under lien

As at 31 March 2018, loans to customers with a gross value of AMD 1,259,966 thousand (31 December 2017: AMD 1,345,984 thousand) serve as collateral for deposits and balances from banks and other borrowed funds (see notes 15 and 17).

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	31 March 2018	31 December 2017
	AMD'000	AMD'000
Energy and gas	10,615,944	7,144,214
Real estate	3,117,721	3,101,523
Processing of agricultural produce	3,117,617	2,833,704
Trade	3,035,105	3,110,338
Transport	1,676,489	1,704,271
Manufacturing	1,595,630	1,472,588
Construction	1,577,873	854,478
Public catering and other services	376,275	341,517
Loans to retail customers	12,132,687	12,345,077
	37,245,341	32,907,710
Impairment allowance	(4,404,133)	(4,366,887)
	32,841,208	28,540,823

(f) Significant credit exposures

As at 31 March 2018 the Bank has two borrowers or groups of connected borrowers (31 December 2017: two), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 March 2018 is AMD 10,493,860 thousand (31 December 2017: AMD 8,021,092 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 20 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2018	954,248	298,081	259,952	44,265	-	165,307	1,721,853
Additions	-	2,876	55	-	-	-	2,931
Disposals	-	(3,268)	(36)	-	-	-	(3,304)
Balance at 31 March 2018	954,248	297,689	259,971	44,265	-	165,307	1,721,480
Depreciation and amortization							
Balance at 1 January 2018	(203,248)	(245,378)	(205,468)	(18,942)	-	(96,608)	(769,644)
Depreciation and amortization for the period	(5,049)	(6,284)	(5,143)	(1,343)	-	(54)	(17,873)
Disposals	-	3,268	36	-	-	-	3,304
Balance at 31 March 2018	(208,297)	(248,394)	(210,575)	(20,285)	-	(96,662)	(784,213)
Carrying amount							
At 31 March 2018	745,951	49,295	49,396	23,980	-	68,645	937,267
Cost							
Balance at 1 January 2017	947,195	276,664	291,655	40,839	-	164,376	1,720,729
Additions	7,053	29,549	13,758	27,073	-	931	78,364
Disposals	-	(8,132)	(45,461)	(23,647)	-	-	(77,240)
Balance at 31 December 2017	954,248	298,081	259,952	44,265	-	165,307	1,721,853
Depreciation and amortization							
Balance at 1 January 2017	(183,143)	(235,735)	(229,825)	(40,839)	-	(96,351)	(785,893)
Depreciation and amortization for the year	(20,105)	(17,764)	(21,064)	(1,750)	-	(257)	(60,940)
Disposals	-	8,121	45,421	23,647	-	-	77,189
Balance at 31 December 2017	(203,248)	(245,378)	(205,468)	(18,942)	-	(96,608)	(769,644)
Carrying amount							
At 31 December 2017	751,000	52,703	54,484	25,323	-	68,699	952,209

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the three-month period ended 31 March 2018 (2017: nil).

14 Other assets

	31 March 2018 AMD'000	31 December 2017 AMD'000
Receivables under money transfer and clearing systems	2,104	4,169
Other receivables	152,472	12,785
Total other financial assets	154,576	16,954
Reposessed assets	716,198	707,953
Income tax prepayments	-	47,134
Other prepayments	36,506	-
Other	32,393	25,333
Total other non-financial assets	785,097	780,420
Total other assets	939,673	797,374

During the three-month period ended 31 March 2018 receivables in the amount of AMD 2,021 thousand were impaired and written off (2017: net write-off of AMD 5,537 thousand).

Management believes that the carrying amount of reposessed assets approximately equals their fair value less costs to sell as at 31 March 2018 and 31 December 2017.

15 Deposits and balances from banks

	31 March 2018 AMD'000	31 December 2017 AMD'000
Loans and term deposits	1,086,424	703,902
Derivatives	8,961	-
	1,095,385	703,902

As at 31 March 2018 the Bank has no bank, whose balance exceeded 10% of equity (2017: none).

16 Current accounts and deposits from customers

	31 March 2018 AMD'000	31 December 2017 AMD'000
Current accounts and demand deposits		
- Retail	4,542,753	4,673,749
- Corporate	1,105,012	1,000,906
Term deposits		
- Retail	30,151,775	29,526,386
- Corporate	11,990,726	10,068,944
	47,790,266	45,269,985

As at 31 March 2018 the Bank maintained customer deposit balances of AMD 336,165 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2017: AMD 465,821 thousand).

As at 31 March 2018 the Bank has one customer (2017: one), whose balances exceeded 10% of equity. The gross value of these balances as at 31 March 2018 is AMD 2,895,595 thousand (31 December 2017: AMD 2,681,545 thousand).

17 Other borrowed funds

	31 March 2018 AMD'000	31 December 2017 AMD'000
Loan from a related party	2,979,423	3,066,241
Loans from National Mortgage Company	1,085,072	1,191,370
Loan from International Financial Corporation (IFC)	365,605	562,898
Other	61,100	37,129
	4,491,200	4,857,638

(a) Convertable borrowing

On 19 January 2017 the Bank received a loan from the related party of USD 6,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 4 years. The loan contains mandatory conversion clause, representing forward financial instrument. Management believes that the fair value of instrument is not material as at 31 March 2018.

(b) Breach of covenants

As at 31 March 2018 and 31 December 2017 the Bank breached some of its maximum covenant thresholds under the loan agreement with IFC. As at 31 March 2018 and 31 December 2017 the management did not obtain a waiver, so that these loans were payable on demand as at 31 March 2018 and 31 December 2017. Accordingly, the loans from IFC of AMD 365,605 thousand (31 December 2017: loans from IFC of AMD 562,898 thousand) are classified as being due on demand in the interest rate gap, liquidity and maturity tables in note 20.

18 Subordinated loans from Parent

On 30 April 2015, on 30 September 2016 and on 13 December 2016 the Bank obtained subordinated loans from the Parent of USD 5,000 thousand, EUR 9,375 thousand and USD 5,200 thousand convertible into the ordinary shares of the Bank at the nominal value per share within 10 years, at the option of the holder. The loans contain mandatory and voluntary conversion options, representing forward and option financial instruments, respectively. Management believes that the fair value of both instruments is not material as at 31 March 2018 and 31 December 2017.

19 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 238,251 ordinary shares (31 December 2017: 238,251). All shares have a nominal value of AMD 100,000.

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

(b) Nature and purpose of reserves

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date no reserves are available for distribution (2017: nil).

20 Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Bank are those related to market risk, credit risk, liquidity risk, and operational.

The Bank's risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Bank has developed a system of reporting on significant risks and capital.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. The Management Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Management Committee monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

In compliance with the Bank's internal documentation the the Management Committee and internal audit function frequently prepare reports, which cover the Bank's significant risks management. The reports include observations as to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in debt and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO Committee.

(i) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 March 2018							
ASSETS							
Cash and cash equivalents	836,599	-	-	-	-	8,295,776	9,132,375
Available-for-sale financial assets	1,999,441	181,964	216,577	10,864,982	14,439,764	13,160	27,715,888
Amounts receivable under reverse repurchase agreements	6,836,951	-	-	-	-	-	6,836,951
Amounts due from banks	8,488,974	1,209,688	-	-	70,383	70,000	9,839,045
Loans to customers	2,313,015	5,315,143	2,744,558	15,069,000	7,399,492	-	32,841,208
Other financial assets	-	-	-	-	-	154,575	154,575
	20,474,980	6,706,795	2,961,135	25,933,982	21,909,639	8,533,511	86,520,042
LIABILITIES							
Deposits and balances from banks	9,381	19,085	5,644	1,061,275	-	-	1,095,385
Current accounts and deposits from customers	15,730,783	12,011,836	9,216,524	9,338,703	32,312	1,460,108	47,790,266
Other borrowed funds	409,297	33,552	65,109	3,682,010	301,232	-	4,491,200
Subordinated loans from Parent	-	9,332	-	-	10,445,161	-	10,454,493
Other financial liabilities	-	-	-	-	-	233,624	233,624
	16,149,461	12,073,805	9,287,277	14,081,988	10,778,705	1,693,732	64,064,968
	4,325,519	(5,367,010)	(6,326,142)	11,851,994	11,130,934	6,839,779	22,455,074
31 December 2017							
ASSETS							
Cash and cash equivalents	918,132	-	-	-	-	6,490,370	7,408,502
Available-for-sale financial assets	1,685,051	1,299,957	370,577	10,709,342	12,000,907	13,160	26,078,994
Amounts receivable under reverse repurchase agreements	10,049,975	-	-	-	-	-	10,049,975
Loans to banks	11,078,641	-	-	-	70,821	142,500	11,291,962
Loans to customers	2,128,118	2,129,670	1,954,342	14,776,419	7,552,274	-	28,540,823
Other financial assets	-	-	-	-	-	16,954	16,954
	25,859,917	3,429,627	2,324,919	25,485,761	19,624,002	6,662,984	83,387,210
LIABILITIES							
Deposits and balances from banks	25,791	386	8,455	669,270	-	-	703,902
Current accounts and deposits from customers	13,808,625	6,767,691	14,185,336	9,067,470	32,354	1,408,509	45,269,985
Other borrowed funds	676,019	33,446	70,821	3,766,808	310,544	-	4,857,638
Subordinated loans from Parent	177,984	-	-	-	10,376,325	-	10,554,309
Other financial liabilities	-	-	-	-	-	132,642	132,642
	14,688,419	6,801,523	14,264,612	13,503,548	10,719,223	1,541,151	61,518,476
	11,171,498	(3,371,896)	(11,939,693)	11,982,213	8,904,779	5,121,833	21,868,734

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 March 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 March 2018			31 December 2017		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Available-for-sale financial assets	11.0%	6.4%	-	10.9%	6.4%	-
Amounts receivable under reverse repurchase agreements	6.0%	1.5%	-	6.0%	1.5%	-
Amounts due from banks	6.0%	2.3%	-	5.8%	2.0%	1.0%
Loans to customers	13.3%	6.1%	7.0%	13.5%	6.3%	8.0%
Interest bearing liabilities						
Deposits and balances from banks	8.1%	-	-	8.1%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.5%	1.7%	0.6%	2.5%	1.4%	0.6%
- Term deposits	10.7%	4.8%	3.0%	11.0%	4.9%	2.9%
Other borrowed funds	9.0%	8.1%	-	9.1%	8.0%	-
Subordinated loans from parent	-	6.5%	6.5%	-	6.5%	6.5%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 March 2018 and 31 December 2017, respectively, as follows:

	31 March 2018 AMD'000	31 December 2017 AMD'000
100 bp parallel fall	38,969	99,137
100 bp parallel rise	(38,969)	(99,137)

An analysis of sensitivity of net profit or loss and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing at 31 March 2018 and 31 December 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	31 March 2018 AMD'000		31 December 2017 AMD'000	
	Net profit or loss AMD'000	Equity AMD'000	Net profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	1,070,305	-	929,630
100 bp parallel rise	-	(1,070,305)	-	(929,630)

(ii) **Currency risk**

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 March 2018:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	6,021,365	2,296,515	784,762	29,733	9,132,375
Available-for-sale financial assets	26,181,458	1,534,430	-	-	27,715,888
Amounts receivable under reverse repurchase agreements	3,019,741	3,817,210	-	-	6,836,951
Amounts due from banks	5,026,377	4,812,668	-	-	9,839,045
Loans to customers	6,917,631	19,962,189	5,961,388	-	32,841,208
Other financial assets	141,878	10,807	1,887	3	154,575
Total assets	47,308,450	32,433,819	6,748,037	29,736	86,520,042
LIABILITIES					
Deposits and balances from banks	1,095,385	-	-	-	1,095,385
Current accounts and deposits from customers	18,514,448	28,001,318	1,253,407	21,093	47,790,266
Other borrowed funds	1,141,450	3,349,750	-	-	4,491,200
Subordinated loans from Parent	-	4,902,310	5,552,183	-	10,454,493
Other financial liabilities	222,494	10,375	755	-	233,624
Total	20,973,777	36,263,753	6,806,345	21,093	64,064,968
Net position	26,334,673	(3,829,934)	(58,308)	8,643	22,455,074
The effect of derivatives held for risk management	(1,449,141)	1,440,180	-	-	(8,961)
Net position after derivatives held for risk management purposes	24,885,532	(2,389,754)	(58,308)	8,643	22,446,113

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	4,825,915	2,085,350	484,235	13,002	7,408,502
Available-for-sale financial assets	24,513,400	1,565,594	-	-	26,078,994
Amounts receivable under reverse repurchase agreements	5,679,695	4,370,280	-	-	10,049,975
Amounts due from banks	1,042,925	9,958,892	290,145	-	11,291,962
Loans to customers	6,850,199	15,861,655	5,828,969	-	28,540,823
Other financial assets	4,246	12,688	20	-	16,954

Total assets	42,916,380	33,854,459	6,603,369	13,002	83,387,210
LIABILITIES					
Deposits and balances from banks	703,902	-	-	-	703,902
Current accounts and deposits from customers	16,622,326	27,525,558	1,114,460	7,641	45,269,985
Other borrowed funds	1,222,559	3,635,079	-	-	4,857,638
Subordinated loans from Parent	-	5,023,342	5,530,967	-	10,554,309
Other financial liabilities	132,446	-	196	-	132,642
Total	18,681,233	36,183,979	6,645,623	7,641	61,518,476
Net position	24,235,147	(2,329,520)	(42,254)	5,361	21,868,734

A weakening of the AMD, as indicated below, against the following currencies at 31 March 2018 and 31 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 March 2018	31 December 2017
	AMD'000	AMD'000
10% appreciation of USD against AMD	(238,975)	(232,952)
10% appreciation of EUR against AMD	(5,831)	(4,225)

A strengthening of the AMD against the above currencies at 31 March 2018 and 31 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments).

Corporate loan credit applications are originated and analyzed by the relevant relationship managers from the Commercial Banking Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Management Committee reviews the loan credit application on the basis of submissions by the Commercial Banking Department. Individual transactions are also reviewed by the Legal Unit, depending on the specific risks and pending final approval of the Management Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by independent appraisal companies or the Bank's specialists.

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits. Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks. The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and

liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 March 2018	31 December 2017
	AMD'000	AMD'000
Assets		
Cash and cash equivalents	8,794,105	6,983,923
Available-for-sale financial assets	27,715,888	26,078,994
Amounts receivable under reverse repurchase agreements	6,836,951	10,049,975
Amounts due from banks	9,839,045	11,291,962
Loans to customers	32,841,208	28,540,823
Other financial assets	154,575	16,954
Total maximum exposure	86,181,772	82,962,631

Collateral generally is not held against investments in securities, and loans to banks, except when securities are held as part of reverse repurchase activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 12.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 22.

As at 31 March 2018 the Bank has one debtor or groups of connected debtors (2017: one), credit risk exposure to whom exceeded 10 percent maximum credit risk exposure. The credit risk exposure for this customer as at 31 March 2018 is AMD 26,424,229 thousand (2017: AMD 24,801,931 thousand).

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's 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.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 March 2018:

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	6,836,951	-	6,836,951	6,836,951	-
Total financial assets	6,836,951	-	6,836,951	6,836,951	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	10,049,975	-	10,049,975	10,049,975	-
Total financial assets	10,049,975	-	10,049,975	10,049,975	-

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the ALCO Committee.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Unit receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Unit then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Unit. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO Committee, based on the reports of Risk Management and Treasury Unit.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The contractual maturity analysis for financial liabilities as at 31 March 2018 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 March 2018							
Non-derivative liabilities							
Deposits and balances from banks	9,127	258	19,177	5,996	1,357,866	1,392,424	1,095,385
Current accounts and deposits from customers	10,975,735	6,274,293	12,340,511	9,650,681	10,200,243	49,441,463	47,790,266
Other borrowed funds	383,434	26,238	34,636	69,715	5,042,722	5,556,745	4,491,200
Subordinated loans from Parent	-	-	9,332	-	15,999,778	16,009,110	10,454,493
Other financial liabilities	233,085	-	-	-	539	233,624	233,624
Total	11,601,381	6,300,789	12,403,656	9,726,392	32,601,148	72,633,366	64,064,968
Credit related commitments	3,379,137	-	-	-	-	3,379,137	3,379,137

The contractual maturity analysis for financial liabilities as at 31 December 2017 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2017							
Non-derivative liabilities							
Deposits and balances from banks	25,546	249	399	9,082	825,098	860,374	703,902
Current accounts and deposits from customers	11,290,651	3,959,779	6,935,450	14,953,485	10,036,920	47,176,285	45,269,985
Other borrowed funds	582,448	93,956	34,635	75,791	5,232,189	6,019,019	4,857,638
Subordinated loans from Parent	-	177,984	-	-	16,058,263	16,236,247	10,554,309
Other financial liabilities	127,242	-	5,400	-	-	132,642	132,642
Total	12,025,887	4,231,968	6,975,884	15,038,358	32,152,470	70,424,567	61,518,476
Credit related commitments	4,205,340	-	-	-	-	4,205,340	4,205,340

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	31 March 2018 AMD'000	31 December 2017 AMD'000
Less than 1 month	2,203,208	1,364,844
From 1 to 3 months	4,275,044	2,575,444
From 3 to 12 months	14,680,645	16,377,132
More than 1 year	8,368,104	8,765,925
	29,527,001	29,083,345

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 March 2018:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	9,132,375	-	-	-	-	-	-	9,132,375
Available-for-sale financial assets	1,412,055	587,386	398,541	10,864,982	14,439,764	13,160	-	27,715,888
Amounts receivable under reverse repurchase agreements	6,836,951	-	-	-	-	-	-	6,836,951
Amounts due from banks	8,006,039	482,935	1,209,688	-	-	140,383	-	9,839,045
Loans to customers	295,468	2,017,547	8,059,701	11,525,394	7,399,492	-	3,543,606	32,841,208
Property, equipment and intangible assets	-	-	-	-	-	937,267	-	937,267
Other assets	149,958	5,460	48,725	728,198	7,332	-	-	939,673
Total assets	25,832,846	3,093,328	9,716,655	23,118,574	21,846,588	1,090,810	3,543,606	88,242,407
Liabilities								
Deposits and balances from banks	9,127	254	24,729	1,061,275	-	-	-	1,095,385
Current accounts and deposits from customers	10,970,853	6,208,509	21,234,889	9,343,703	32,312	-	-	47,790,266
Other borrowed funds	383,394	25,903	98,661	3,682,010	301,232	-	-	4,491,200
Subordinated loans from Parent	-	-	9,332	-	10,445,161	-	-	10,454,493
Deferred tax liabilities	-	-	-	-	-	37,431	-	37,431
Other liabilities	298,020	34	3,668	1,355	6,260	-	-	309,337
Total liabilities	11,661,394	6,234,700	21,371,279	14,088,343	10,784,965	37,431	-	64,178,112
Net position	14,171,452	(3,141,372)	(11,654,624)	9,030,231	11,061,623	1,053,379	3,543,606	24,064,295

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2017:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	7,408,502	-	-	-	-	-	-	7,408,502
Available-for-sale financial assets	176,015	1,509,035	1,670,534	10,709,342	12,000,908	13,160	-	26,078,994
Amounts receivable under reverse repurchase agreements	10,049,975	-	-	-	-	-	-	10,049,975
Loans to banks	11,078,641	-	-	-	70,821	142,500	-	11,291,962
Loans to customers	393,242	1,734,876	4,084,012	11,269,619	7,552,274	-	3,506,800	28,540,823
Property, equipment and intangible assets	-	-	-	-	-	952,209	-	952,209
Other assets	16,137	7,427	46,383	719,953	7,474	-	-	797,374
Total assets	29,122,512	3,251,338	5,800,929	22,698,914	19,631,477	1,107,869	3,506,800	85,119,839
Liabilities								
Deposits and balances from banks	25,546	245	8,841	669,270	-	-	-	703,902
Current accounts and deposits from customers	11,281,635	3,918,109	20,965,415	9,072,472	32,354	-	-	45,269,985
Other borrowed funds	582,405	93,615	104,266	3,766,808	310,544	-	-	4,857,638
Subordinated loans from Parent	-	177,984	-	-	10,376,325	-	-	10,554,309
Other liabilities	-	-	-	-	-	372,883	-	372,883
Total liabilities	12,069,029	4,189,987	21,087,274	13,509,366	10,725,534	372,883	-	61,954,073
Net position	17,053,483	(938,649)	(15,286,345)	9,189,548	8,905,943	734,986	3,506,800	23,165,766

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported unaudited ratios of highly liquid assets to demand liabilities at the 31 March 2018 is 500.8% (31 December 2017: 591.6%).

The above ratio is also used to measure compliance with the liquidity limit established by the CBA (60% minimum).

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's 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 behavior. Operational risks arise from all of the Bank's operations.

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 and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

21 Capital management

The CBA sets and monitors capital requirements for the Bank.

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

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 March 2018 and 31 December 2017:

	31 March 2018 AMD'000	31 December 2017 AMD'000
Tier 1 capital		
Share capital	23,825,100	23,825,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Accumulated losses	(1,024,347)	(1,413,175)
Deductions	(952,399)	(894,809)
Total tier 1 capital	22,156,795	21,825,557
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	1,813,905	1,491,396
Subordinated loans	10,443,987	10,376,258
Deduction of tier 2 capital as per CBA regulations	(3,395,175)	(954,876)
Total tier 2 capital	8,862,717	10,912,778
Total capital	31,019,512	32,738,335
Total risk weighted assets	78,688,706	75,483,016
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	39.4%	43.4%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	28.2%	28.9%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset

and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

22 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	31 March 2018	31 December 2017
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	2,661,174	3,981,089
Credit card commitments	222,552	216,948
Guarantees and letters of credit	495,411	7,303
	3,379,137	4,205,340

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 March 2018 of these credit related commitments, AMD 2,546,698 thousand (31 December 2017: AMD 3,825,375 thousand) are to four customers (31 December 2017: four customers). This exposure represents a significant credit risk exposure to the Bank.

23 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 500,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 90,000 thousand insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 the Republic of Armenia that are substantially 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.

24 Related party transactions

(a) Control relationships

The Bank's parent Company is "Byblos Bank S.A.L", which owns 100 % of the share capital. The parent Company produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

(b) Transactions with the members of the Board of Directors and the Management Committee

Total remuneration included in personnel expenses for the three-month period ended 31 March 2018 and 31 March 2017 is as follows:

	31 March 2018 AMD'000	31 March 2017 AMD'000
Short-term employee benefits	57,911	38,803

The outstanding balances and average effective interest rates as at 31 March 2018 and 31 December 2017 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	31 March 2018 AMD'000	Average effective interest rate, %	31 December 2017 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	210,465	10.8%	213,657	10.8%
Loan impairment allowance	(423)		(432)	
Deposits received	1,306,799	3.7%	1,290,501	4.2%

Loans to related parties are in Armenian Dram and repayable from 1 to 20 years based on the type of the loan. Loans are secured by the appropriate type of collateral, as presented in note 12 (c) (iii).

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the three-month period ended 31 March 2018 and 31 March 2017 are as follows:

	31 March 2018 AMD'000	31 March 2017 AMD'000
Profit or loss		
Interest income	5,692	4,828
Interest expense	(12,891)	(4,259)
Impairment (loss) / release	9	8

(c) Transactions with other related parties

Other related parties include the Parent company and its fellow subsidiaries. The outstanding balances and the related average effective interest rates as at 31 March 2018 and related profit or loss amounts of transactions for the three-month period ended 31 March 2018 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	524,610	-	96,794	-	-	-	621,404
- in EUR	177,371	-	13,530	-	-	-	190,901
- in other currencies	22,832	-	-	-	-	-	22,832
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	-	-	-
Other borrowed funds							
- in USD	-	-	-	-	2,979,423	8.3%	2,979,423
Subordinated loans from Parent							
- in USD	4,902,310	6.5%	-	-	-	-	4,902,310
- in EUR	5,552,183	6.5%	-	-	-	-	5,552,183
Profit or loss							
Interest income	1,411	-	-	-	-	-	1,411
Interest expense	(169,365)	-	-	-	(61,955)	-	(231,320)
Fee and commission income	1,851	-	-	-	-	-	1,851
Fee and commission expense	(1,771)	-	(59)	-	-	-	(1,830)
Professional services	(337)	-	-	-	-	-	(337)

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the three-month period ended 31 March 2017 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	521,879	-	92,776	-	-	-	614,655
- in EUR	37,467	-	12,175	-	-	-	49,642
- in other currencies	1,293	-	-	-	-	-	1,293
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	-	-	-
Other borrowed funds							
- in USD	-	-	-	-	3,066,241	8.3%	3,066,241
Subordinated loans from Parent							
- in USD	5,023,341	6.5%	-	-	-	-	5,023,341
- in EUR	5,530,968	6.5%	-	-	-	-	5,530,968
Profit or loss							
Interest income	336	-	-	-	-	-	336
Interest expense	(158,179)	-	-	-	(48,908)	-	(207,087)
Fee and commission income	-	-	-	-	-	-	-
Fee and commission expense	(1,703)	-	(103)	-	-	-	(1,806)
Professional services	(110)	-	-	-	-	-	(110)

Cash and cash equivalents held with related parties are not secured.

25 Fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale and AMD denominated loans to customers and term deposits from customers as at 31 March 2018 and 31 December 2017 approximate their carrying amounts. The fair value of unquoted equity securities available-for-sale with a carrying value of AMD 13,160 thousand (31 December 2017: AMD 13,160 thousand) could not be determined.

The fair values of loans to customers and current accounts and term deposits are higher than their carrying values of AMD 32,841,208 thousand (31 December 2017: AMD 28,540,823 thousand) and AMD 47,790,266 thousand (31 December 2017: AMD 45,269,985 thousand) by AMD 1,537,753 thousand (31 December 2017: AMD 1,862,573 thousand lower) and AMD 124,100 thousand lower (31 December 2017: AMD 7,768 thousand lower) respectively, as at 31 March 2018. The fair value measurements of loans to customers, current accounts and term deposits from customers are categorized into Level 2 respectively in the fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 March 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	27,702,728	-	27,702,728

The table below analyses financial instruments measured at fair value at 31 December 2017 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	26,065,834	-	26,065,834

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.