

Byblos Bank Armenia cjsc
Financial Statements
for the year ended 31 December 2017

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Independent Auditors' Report

To the Board of Directors of Byblos Bank Armenia cjsc

Opinion

We have audited the financial statements of Byblos Bank Armenia cjsc (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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

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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

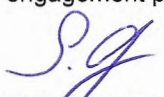
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:


Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc


KPMG Armenia cjsc
7 April 2018



Byblos Bank Armenia cjsc
Statement of Profit or Loss and Other Comprehensive Income for the the year ended 31 December 2017

	Notes	2017 AMD'000	2016 AMD'000
Interest income	4	5,298,404	3,526,351
Interest expense	4	(3,253,244)	(2,163,173)
Net interest income	4	2,045,160	1,363,178
Fee and commission income		110,131	93,859
Fee and commission expense		(67,911)	(40,350)
Net fee and commission income		42,220	53,509
Net foreign exchange gain		67,499	75,874
Net gain on available-for-sale financial assets		417,857	-
Other operating expenses, net		(193,741)	(65,559)
Operating income		2,378,995	1,427,002
Impairment losses	5	(664,400)	(679,982)
Personnel expenses		(572,950)	(467,952)
Other general administrative expenses	6	(491,337)	(435,555)
Profit/(loss) before income tax		650,308	(156,487)
Income tax benefit	7	372,848	-
Profit/(loss) for the year		1,023,156	(156,487)
Other comprehensive income for the year, 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		982,064	925,755
Net change in fair value transferred to profit or loss		(344,213)	-
Other comprehensive income for the year, net of income tax		637,851	925,755
Total comprehensive income for the year		1,661,007	769,268

The financial statements as set out on pages 5 to 55 were approved by management on 7 April, 2018 and were signed on its behalf by:



Hayk Stepanyan
 Chief Executive Officer




Ani Sargsyan
 Head of Finance and Administration

The 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
Statement of Financial Position as at 31 December 2017

	Notes	2017 AMD'000	2016 AMD'000
ASSETS			
Cash and cash equivalents	8	7,408,502	14,089,141
Available-for-sale financial assets	9	26,078,994	21,530,251
Amounts receivable under reverse repurchase agreements	10	10,049,975	1,901,225
Loans to banks	11	11,291,962	2,152,765
Loans to customers	12	28,540,823	22,155,615
Property, equipment and intangible assets	13	952,209	934,836
Other assets	14	797,374	1,426,376
Total assets		85,119,839	64,190,209
LIABILITIES			
Deposits and balances from banks	15	703,902	716,220
Current accounts and deposits from customers	16	45,269,985	29,341,142
Other borrowed funds	17	4,857,638	2,052,073
Subordinated loans from Parent	18	10,554,309	9,868,776
Deferred tax liabilities	7	-	213,385
Other liabilities		195,391	121,006
Total liabilities		61,581,225	42,312,602
EQUITY			
Share capital	19	23,825,100	23,825,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		1,491,396	853,545
Accumulated losses		(2,035,031)	(3,058,187)
Total equity		23,538,614	21,877,607
Total liabilities and equity		85,119,839	64,190,209

The 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
Statement of Cash Flows for the the year ended 31 December 2017

	Notes	<u>2017</u> <u>AMD'000</u>	<u>2016</u> <u>AMD'000</u>
CASH FLOWS USED IN OPERATING ACTIVITIES			
Interest receipts		5,294,355	3,057,227
Interest payments		(2,945,371)	(2,156,415)
Fee and commission receipts		109,790	92,573
Fee and commission payments		(67,877)	(40,308)
Net receipts from available-for-sale financial assets		417,857	-
Net receipts from foreign exchange		34,323	50,887
Tax payments (other than income tax)		(14,645)	(82,383)
Salaries and other payments to employees		(472,079)	(467,046)
Other general administrative expenses payments		(391,088)	(332,944)
Other payments		(46,654)	(75,230)
(Increase)/decrease in operating assets			
Available-for-sale financial assets		(3,797,505)	(15,784,888)
Amounts receivable under reverse repurchase agreements		(8,128,458)	(1,899,980)
Amounts due from banks		(9,108,065)	2,390,311
Loans to customers		(6,335,412)	(5,020,406)
Other assets		398,472	49,694
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		(11,622)	69,895
Current accounts and deposits from customers		15,643,567	822,387
Payments of other borrowed funds		(257,650)	(346,552)
Other liabilities		(18,082)	(49,378)
Net cash flows used in operations		<u>(9,696,144)</u>	<u>(19,722,556)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(76,864)	(6,854)
Net cash flows used in investing activities		<u>(76,864)</u>	<u>(6,854)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of convertible loan from a related party		3,020,578	-
Receipt of subordinated loans from Parent		-	7,489,600
Proceeds from issuance of shares		-	15,700,000
Net cash flows from financing activities		<u>3,020,578</u>	<u>23,189,600</u>
Net (decrease)/increase in cash and cash equivalents		<u>(6,752,430)</u>	<u>3,460,190</u>
Effect of changes in exchange rates on cash and cash equivalents		71,791	104,128
Cash and cash equivalents at the beginning of the year		14,089,141	10,524,823
Cash and cash equivalents at the end of the year	8	<u><u>7,408,502</u></u>	<u><u>14,089,141</u></u>

The 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
Statement of Changes in Equity for the year ended 31 December 2017

AMD'000	Share capital	Share premium	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2016	8,125,100	257,149	(72,210)	(2,901,700)	5,408,339
Total comprehensive income					
Loss for the year	-	-	-	(156,487)	(156,487)
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	-	-	925,755	-	925,755
Total other comprehensive income	-	-	925,755	-	925,755
Total comprehensive income for the year	-	-	925,755	(156,487)	769,268
Transactions with owners, recorded directly in equity					
Shares issued	15,700,000	-	-	-	15,700,000
Total transactions with owners	15,700,000	-	-	-	15,700,000
Balance as at 31 December 2016	23,825,100	257,149	853,545	(3,058,187)	21,877,607
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 year	-	-	-	1,023,156	1,023,156
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	-	-	982,064	-	982,064
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	(344,213)	-	(344,213)
Total other comprehensive income	-	-	637,851	-	637,851
Total comprehensive income for the year	-	-	637,851	1,023,156	1,288,159
Balance as at 31 December 2017	23,825,100	257,149	1,491,396	(2,035,031)	23,538,614

The 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 withdrawability. 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.

Reposessed assets are included in other assets.

Gains and losses on disposal of reposessed 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 will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. 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 1 January 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 1 January 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;
- 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

	2017 AMD'000	2016 AMD'000
Interest income		
Loans to customers	2,603,926	2,033,421
Available-for-sale financial assets	2,369,042	1,077,028
Loans to banks	175,056	227,831
Amounts receivable under reverse repurchase agreements	143,960	186,415
Other	6,420	1,656
	5,298,404	3,526,351
Interest expense		
Current accounts and deposits from customers	2,152,797	1,571,909
Subordinated loans from Parent	653,728	297,545
Other borrowed funds	390,366	173,680
Deposits and balances from banks	56,311	53,742
Amounts payable under repurchase agreements	42	10,120
Other	-	56,177
	3,253,244	2,163,173
	2,045,160	1,363,178

5 Impairment losses

	2017 AMD'000	2016 AMD'000
Loans to customers	658,863	675,251
Other assets	5,537	4,731
	664,400	679,982

6 Other general administrative expenses

	2017 AMD'000	2016 AMD'000
Advertising and marketing	101,963	30,521
Taxes other than on income	63,566	33,754
Depreciation and amortisation	60,940	83,616
Maintenance of computer software	50,704	53,583
Repairs and maintenance	42,225	36,348
Insurance	33,613	34,337
Security	25,388	28,821
Professional services	23,727	40,015
Communications and information services	17,282	18,698
Travel expenses	10,178	8,688
Maintenance of cars	9,726	10,532
Office supplies	8,856	6,807
Membership expenses	7,850	7,500
Legal services	7,451	9,766
Other	27,868	32,569
	491,337	435,555

7 Income taxes

	2017 AMD'000	2016 AMD'000
Current year tax expense	-	-
Origination and reversal of temporary differences	372,848	-
Total income tax benefit	372,848	-

In 2017, the applicable tax rate for current and deferred tax is 20% (2016: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017 AMD'000	%	2016 AMD'000	%
Profit/(loss) before tax	650,308		(156,487)	
Tax at the applicable tax rate	(130,062)	(20)	31,297	20
Non-deductible costs	(19,563)	(3)	(15,848)	(10)
Change in unrecognised deferred tax assets	522,473	80	(15,449)	(10)
	372,848	57	-	-

(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 December 2017 and as at 31 December 2016.

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows:

2017		Recognized in	Recognized in other	
AMD'000	1 January 2017	profit or loss	comprehensive	31 December 2017
			income	
Cash and cash equivalents		(1,839)		(1,839)
Available-for-sale financial assets	(213,385)	-	(159,463)	(372,848)
Amounts receivable under reverse repurchase agreements	-	(20,100)	-	(20,100)
Loans to banks	-	(22,299)	-	(22,299)
Loans to customers	-	257,634	-	257,634
Property, equipment and intangible assets	-	(5,702)	-	(5,702)
Other assets	-	7,591	-	7,591
Other liabilities	-	(9,910)	-	(9,910)
Tax loss carry-forward	-	167,473	-	167,473
	(213,385)	372,848	(159,463)	-

2016		Recognized in	Recognized in other	
AMD'000	1 January 2016	profit or loss	comprehensive loss	31 December 2016
Available-for-sale financial assets	18,054	-	(231,439)	(213,385)
	18,054	-	(231,439)	(213,385)

(b) Unrecognised deferred tax assets

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

	2017	2016
	AMD'000	AMD'000
Temporary differences	-	259,201
Tax losses	71,965	335,237
	71,965	594,438

The tax losses of AMD 254,716 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 year ended 31 December 2017 and 2016 comprise the following:

	2017			2016		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
AMD'000						
Net change in fair value of available-for-sale financial assets	1,227,580	(245,516)	982,064	1,157,194	(231,439)	925,755
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(430,266)	86,053	(344,213)	-	-	-
Other comprehensive income	797,314	(159,463)	637,851	1,157,194	(231,439)	925,755

8 Cash and cash equivalents

	2017 AMD'000	2016 AMD'000
Cash on hand	424,579	337,659
Nostro accounts with the CBA, including obligatory reserves	6,064,886	13,332,929
Nostro accounts with other banks		
- OECD banks	104,951	97,601
- Other foreign banks	570,921	318,957
- Largest 5 Armenian banks	-	143
- Other Armenian banks	243,165	1,849
Total nostro accounts with other banks	919,037	418,550
Total cash and cash equivalents as shown in the statement of cash flows	7,408,502	14,089,138
Accrued interest	-	3
Total cash and cash equivalents as shown in the statement of financial position	7,408,502	14,089,141

No cash and cash equivalents are impaired or past due.

As at 31 December 2017 and 2016 the Bank has no banks (2016: none), 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 December 2017 included in nostro accounts with the CBA, is the amount of obligatory reserve of AMD 5,233,294 thousand for amounts attracted in Armenian drams and foreign currency (2016: AMD 4,002,108 thousand).

9 Available-for-sale financial assets

	2017 AMD'000	2016 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	24,801,931	21,313,527
- Securities of international financial institutions	904,098	-
- Corporate bonds issued by largest 5 Armenian bank	359,805	203,564
	26,065,834	21,517,091
Equity instruments		
- Corporate shares	13,160	13,160
	26,078,994	21,530,251

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		2017 AMD'000	2016 AMD'000
			2017	2016		
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

	2017 AMD'000	2017 AMD'000
Amounts receivable from 5 largest Armenian banks	4,370,280	-
Amounts receivable from other Armenian banks	5,679,695	1,901,225
	10,049,975	1,901,225

As at 31 December 2017 the Bank has two banks (2016: none), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2017 is 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 December 2017 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of AMD 10,234,433 thousand (2016: AMD 1,980,896 thousand).

11 Loans to banks

	2017	2016
	AMD'000	AMD'000
Credit card settlement deposit with the CBA	142,500	142,500
Loans and deposits		
- Largest 5 Armenian banks	3,389,861	1,459,902
- Other Armenian banks	7,688,780	485,276
- OECD banks	70,821	65,087
Total loans and deposits	11,149,462	2,010,265
Total loans to banks	11,291,962	2,152,765

No amounts due from banks are impaired or past due.

As at 31 December 2017 included in loans and deposits with OECD banks is AMD 70,821 thousand (2016: AMD 65,087 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 December 2017 the Bank has three banks (2016: none), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2017 is AMD 8,263,611 thousand.

12 Loans to customers

	2017 AMD'000	2016 AMD'000
Loans to corporate customers		
Loans to large corporates	19,486,784	13,305,814
Loans to small- and medium sized companies	1,075,849	1,374,146
Total loans to corporate customers	20,562,633	14,679,960
Loans to retail customers		
Mortgage loans	10,340,378	9,311,640
Consumer loans secured by real estate	1,131,612	1,287,102
Consumer loans with salary domiciliation	251,762	184,972
Credit card loans	233,828	218,992
Auto loans	175,259	307,083
Small business loans	147,260	342,859
Other	64,978	49,008
Total loans to retail customers	12,345,077	11,701,656
Gross loans to customers	32,907,710	26,381,616
Impairment allowance	(4,366,887)	(4,226,001)
Net loans to customers	28,540,823	22,155,615

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 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	579,698	79,165	658,863
Write-offs	(350,632)	(167,345)	(517,977)
Balance at the end of the year	4,131,870	235,017	4,366,887

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 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	3,548,226	320,174	3,868,400
Net charge	504,985	170,266	675,251
Write-offs	(150,407)	(167,243)	(317,650)
Balance at the end of the year	3,902,804	323,197	4,226,001

(a) Credit quality of loans to customers

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
- 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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
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

The following table provides information on the credit quality of loans to customers as at 31 December 2016:

	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	8,211,869	(94,436)	8,117,433	1.1
Impaired loans:				
- overdue more than 1 year	5,093,945	(3,721,623)	1,372,322	73.1
Total impaired loans	5,093,945	(3,721,623)	1,372,322	73.1%
Total loans to large corporates	13,305,814	(3,816,059)	9,489,755	28.7%
Loans to small and medium size companies				
Loans without individual signs of impairment	948,093	(10,903)	937,190	1.1
Impaired loans:				
-not overdue	64,034	(1,281)	62,753	2.0
-overdue more than 1 year	362,019	(74,561)	287,458	20.6
Total impaired loans	426,053	(75,842)	350,211	17.8%
Total loans to small and medium size companies	1,374,146	(86,745)	1,287,401	6.3
Total loans to corporate customers	14,679,960	(3,902,804)	10,777,156	26.6
Loans to retail customers				
Mortgage loans				
-not overdue	8,791,096	(17,582)	8,773,514	0.2
- not overdue, but impaired	73,999	(16,280)	57,719	22.0
- overdue less than 30 days	19,543	(8,599)	10,944	44.0
- overdue 31-90 days	69,705	(30,670)	39,035	44.0
- overdue 91-180 days	52,259	(22,994)	29,265	44.0
- overdue 181-270 days	155,328	(68,345)	86,983	44.0
- overdue more than 271 days	149,710	(65,872)	83,838	44.0
Total mortgage loans	9,311,640	(230,342)	9,081,298	2.5

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	AMD'000	AMD'000	AMD'000	%
Consumer loans secured by real estate				
- not overdue	1,169,866	(2,340)	1,167,526	0.2
- not overdue, but impaired	18,409	(4,050)	14,359	22.0
- overdue less than 30 days	11,127	(4,896)	6,231	44.0
- overdue 31-90 days	15,618	(6,872)	8,746	44.0
- overdue 91-180 days	23,337	(10,268)	13,069	44.0
- overdue 181-270 days	6,118	(2,692)	3,426	44.0
- overdue more than 271 days	42,627	(18,756)	23,871	44.0
Total consumer loans secured by real estate	1,287,102	(49,874)	1,237,228	3.9
Consumer loans with salary domiciliation				
- not overdue	180,836	(904)	179,932	0.5
- overdue less than 30 days	401	(241)	160	60.1
- overdue 31-90 days	744	(446)	298	59.9
- overdue 91-180 days	785	(471)	314	60.0
- overdue 181-270 days	2,206	(1,324)	882	60.0
Total consumer loans with salary domiciliation	184,972	(3,386)	181,586	1.8
Credit card loans				
- not overdue	216,596	(1,083)	215,513	0.5
- not overdue, but impaired	2,396	(719)	1,677	30.0
Total credit card loans	218,992	(1,802)	217,190	0.8
Auto loans				
- not overdue	287,120	(574)	286,546	0.2
- not overdue, but impaired	1,992	(199)	1,793	10.0
- overdue less than 30 days	8,526	(1,705)	6,821	20.0
- overdue 31-90 days	9,445	(1,889)	7,556	20.0
Total auto loans	307,083	(4,367)	302,716	1.4
Small business loans				
- not overdue	278,204	(2,782)	275,422	1.0
- not overdue, but impaired	27,163	(8,149)	19,014	30.0
- overdue 31-90 days	6,181	(3,709)	2,472	60.0
- overdue 91-180 days	6,574	(3,944)	2,630	60.0
- overdue 181-270 days	8,130	(4,878)	3,252	60.0
- overdue more than 271 days	16,607	(9,964)	6,643	60.0
Total small business loans	342,859	(33,426)	309,433	9.7
Other retail loans				
- not overdue	49,008	-	49,008	0.0
Total other retail loans	49,008	-	49,008	0.0
Total loans to retail customers	11,701,656	(323,197)	11,378,459	2.8
Total loans to customers	26,381,616	(4,226,001)	22,155,615	16.0

(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 December 2017 would be AMD 164,308 thousand lower/higher (31 December 2016: AMD 107,772 thousand lower/higher).

The impairment allowance on impaired loans to corporate customers would have been AMD 200,288 thousand higher (31 December 2016: AMD 220,895 thousand) if the market value of the collateral have been assessed 15% lower as at the reporting date.

During the year ended 31 December 2017 the Bank did not renegotiate any commercial loan that would otherwise be past due or impaired (31 December 2016: AMD 14,222 thousand). 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 December 2017 would be AMD 363,302 thousand lower/higher (31 December 2016: AMD 341,354 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 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
31 December 2016		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			
Bank account turnover	4,962,951	-	4,962,951
Real estate	4,091,672	-	4,091,672
Total loans without individual signs of impairment	9,054,623	-	9,054,623
Overdue or impaired loans			
Real estate	1,722,533	1,722,533	-
Total overdue or impaired loans	1,722,533	1,722,533	-
Total loans to corporate customers	10,777,156	1,722,533	9,054,623

The tables above excludes 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 year ended 31 December 2017, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 38,975 thousand (31 December 2016: nil). Part of the repossessed collateral in the amount of AMD 629,856 thousand was sold during the year ended 31 December 2017 (31 December 2016: AMD 90,340 thousand).

As at 31 December 2017 and 2016, the repossessed collateral comprises:

	2017 AMD'000	2016 AMD'000
Real estate	703,129	1,298,834
Other assets	4,824	-
Total repossessed collateral	707,953	1,298,834

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

(d) Asset under lien

As at 31 December 2017, loans to customers with a gross value of AMD 1,345,984 thousand (31 December 2016: AMD 1,184,681 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:

	2017 AMD'000	2016 AMD'000
Energy and gas	7,144,214	5,020,689
Trade	3,110,338	3,002,178
Real estate	3,101,523	-
Processing of agricultural produce	2,833,704	3,341,672
Transport	1,704,271	1,659,758
Manufacturing	1,472,588	1,522,662
Construction	854,478	-
Public catering and other services	341,517	133,001
Loans to retail customers	12,345,077	11,701,656
	32,907,710	26,381,616
Impairment allowance	(4,366,887)	(4,226,001)
	28,540,823	22,155,615

(f) Significant credit exposures

As at 31 December 2017 the Bank has two borrowers or groups of connected borrowers (31 December 2016: one), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 December 2017 is AMD 8,021,092 thousand (31 December 2016: AMD 4,962,951 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 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
Cost							
Balance at 1 January 2016	945,079	295,697	314,270	53,700	22,769	163,957	1,795,472
Additions	2,116	2,182	5,442	-	-	419	10,159
Disposals	-	(21,215)	(28,057)	(12,861)	(22,769)	-	(84,902)
Balance at 31 December 2016	947,195	276,664	291,655	40,839	-	164,376	1,720,729
Depreciation and amortization							
Balance at 1 January 2016	(163,189)	(226,245)	(221,295)	(53,700)	(21,926)	(94,542)	(780,897)
Depreciation and amortization for the year	(19,954)	(29,412)	(32,280)	-	(161)	(1,809)	(83,616)
Disposals	-	19,922	23,750	12,861	22,087	-	78,620
Balance at 31 December 2016	(183,143)	(235,735)	(229,825)	(40,839)	-	(96,351)	(785,893)
Carrying amount							
At 31 December 2016	764,052	40,929	61,830	-	-	68,025	934,836
At 1 January 2016	781,890	69,452	92,975	-	843	69,415	1,014,575

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2017 (2016: nil).

14 Other assets

	2017	2016
	AMD'000	AMD'000
Receivables under money transfer and clearing systems	4,169	1,982
Other receivables	12,785	2,576
Total other financial assets	16,954	4,558
Repossessed assets	707,953	1,298,834
Income tax prepayments	47,134	63,756
Other prepayments	-	36,178
Other	25,333	23,050
Total other non-financial assets	780,420	1,421,818
Total other assets	797,374	1,426,376

During the year ended 31 December 2017 receivables in the amount of AMD 5,537 thousand were impaired and written off (2016: net write-off of AMD 4,731 thousand).

Management believes that the carrying amount of repossessed assets approximately equals their fair value less costs to sell as at 31 December 2017 and 31 December 2016.

15 Deposits and balances from banks

	2017	2016
	AMD'000	AMD'000
Loans and term deposits	703,902	716,220

As at 31 December 2017 the Bank has no bank, whose balance exceeded 10% of equity (2016: none).

16 Current accounts and deposits from customers

	2017	2016
	AMD'000	AMD'000
Current accounts and demand deposits		
- Retail	4,673,749	3,413,707
- Corporate	1,000,906	1,091,100
Term deposits		
- Retail	29,526,386	20,273,375
- Corporate	10,068,944	4,562,960
	45,269,985	29,341,142

As at 31 December 2017 the Bank maintained customer deposit balances of AMD 465,821 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2016: AMD 86,641 thousand).

As at 31 December 2017 the Bank has one customer (2016: none), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2017 is AMD 2,681,545 thousand.

17 Other borrowed funds

	2017 AMD'000	2016 AMD'000
Loan from a related party	3,066,241	-
Loans from National Mortgage Company	1,191,370	1,115,217
Loan from International Financial Corporation (IFC)	562,898	936,856
Other	37,129	-
	4,857,638	2,052,073

(a) Convertible 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 december 2017.

(b) Breach of covenants

As at 31 December 2017 and 2016 the Bank breached some of its maximum covenant thresholds under the loan agreement with IFC. As at 31 December 2017 and 2016 the management did not obtain a waiver, so that these loans were payable on demand as at 31 December 2017 and 2016. Accordingly, the loans from IFC of AMD 562,898 thousand (31 December 2016: loans from IFC of AMD 936,856 thousand) are classified as being due on demand in the interest rate gap, liquidity and maturity tables in note 20.

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

		Liabilities		Equity		Total
		Bank overdrafts used for cash management purposes	Loan from a related party	Share capital/ Additional paid-in capital	Retained earnings	
'000 AMD	Note					
Balance at 1 January 2017		-	-	-	-	-
Changes from financing cash flows						
Receipt of convertible loan from a related party		-	3,020,578	-	-	3,020,578
Total changes from financing cash flows		-	3,020,578	-	-	3,020,578
The effect of changes in foreign exchange rates		-	(35,859)	-	-	(35,859)
Other changes						
<i>Liability-related</i>						
Interest expense	11	-	236,417	-	-	236,417
Interest paid		-	(154,895)	-	-	(154,895)
Total liability-related other changes		-	81,522	-	-	81,522
Total equity-related other changes		-	-	-	-	-
Balance at 31 December 2017		-	3,066,241	-	-	3,066,241

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 December 2017 and 2016.

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 2016: 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 (2016: 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 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
31 December 2016							
ASSETS							
Cash and cash equivalents	416,785	-	-	-	-	13,672,356	14,089,141
Available-for-sale financial assets	909,145	3,573,959	199,554	10,433,561	6,400,872	13,160	21,530,251
Amounts receivable under reverse repurchase agreements	1,901,225	-	-	-	-	-	1,901,225
Loans to banks	1,461,241	483,937	-	-	-	207,587	2,152,765
Loans to customers	886,063	609,770	1,052,619	13,535,375	6,071,788	-	22,155,615
Other financial assets	-	-	-	-	-	4,558	4,558
	5,574,459	4,667,666	1,252,173	23,968,936	12,472,660	13,897,661	61,833,555
LIABILITIES							
Deposits and balances from banks	27,279	339	697	687,905	-	-	716,220
Current accounts and deposits from customers	8,952,218	5,091,681	11,835,005	2,135,753	-	1,326,485	29,341,142
Other borrowed funds	982,779	26,222	56,110	720,688	266,274	-	2,052,073
Subordinated loans from Parent	129,851	-	-	-	9,738,925	-	9,868,776
Other financial liabilities	-	-	-	-	-	104,960	104,960
	10,092,127	5,118,242	11,891,812	3,544,346	10,005,199	1,431,445	42,083,171
	(4,517,668)	(450,576)	(10,639,639)	20,424,590	2,467,461	12,466,216	19,750,384

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 31 December 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017			2016		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Available-for-sale financial assets	10.9%	6.4%	-	11.8%	6.4%	-
Amounts receivable under reverse repurchase agreements	6.0%	1.5%	-	6.0%	-	-
Loans to banks	5.8%	2.0%	1.0%	-	4.2%	-
Loans to customers	13.5%	6.3%	8.0%	14.0%	6.3%	8.2%
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%	1.4%	0.6%	2.7%	1.5%	0.6%
- Term deposits	11.0%	4.9%	2.9%	13.2%	5.0%	2.8%
Other borrowed funds	9.1%	8.0%	-	9.1%	6.2%	-
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 December 2017 and 31 December 2016, respectively, as follows:

	2017	2016
	AMD'000	AMD'000
100 bp parallel fall	99,137	51,480
100 bp parallel rise	(99,137)	(51,480)

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 December 2017 and 31 December 2016 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	2017		2016	
	Net profit or loss AMD'000	Equity AMD'000	Net profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	929,630	-	645,220
100 bp parallel rise	-	(929,630)	-	(645,220)

(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 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
Loans to 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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	4,307,510	9,227,698	546,846	7,087	14,089,141
Available-for-sale financial assets	20,008,451	1,521,800	-	-	21,530,251
Amounts receivable under reverse repurchase agreements	1,901,225	-	-	-	1,901,225
Loans to banks	142,500	2,010,265	-	-	2,152,765
Loans to customers	5,702,921	11,367,689	5,085,005	-	22,155,615
Other financial assets	2,676	1,872	10	-	4,558
Total assets	32,065,283	24,129,324	5,631,861	7,087	61,833,555
LIABILITIES					
Deposits and balances from banks	716,220	-	-	-	716,220
Current accounts and deposits from customers	8,653,919	19,925,789	760,531	903	29,341,142
Other borrowed funds	1,104,338	947,735	-	-	2,052,073
Subordinated loans from Parent	-	4,987,736	4,881,040	-	9,868,776
Other financial liabilities	104,635	155	170	-	104,960
Total liabilities	10,579,112	25,861,415	5,641,741	903	42,083,171
Net position	21,486,171	(1,732,091)	(9,880)	6,184	19,750,384

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2017 and 31 December 2016 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.

	2017 AMD'000	2016 AMD'000
10% appreciation of USD against AMD	(232,952)	(173,209)
10% appreciation of EUR against AMD	(4,225)	(988)

A strengthening of the AMD against the above currencies at 31 December 2017 and 31 December 2016 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:

	2017 AMD'000	2016 AMD'000
Assets		
Cash and cash equivalents	6,983,923	13,751,482
Available-for-sale financial assets	26,078,994	21,530,251
Amounts receivable under reverse repurchase agreements	10,049,975	1,901,225
Loans to banks	11,291,962	2,152,765
Loans to customers	28,540,823	22,155,615
Other financial assets	16,954	4,558
Total maximum exposure	82,962,631	61,495,896

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 December 2017 the Bank has one debtor or groups of connected debtors (2016: one), credit risk exposure to whom exceeded 10 percent maximum credit risk exposure. The credit risk exposure for this customer as at 31 December 2017 is AMD 24,801,931 thousand (2016: AMD 21,313,527 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 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	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

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	1,901,225	-	1,901,225	1,901,225	-
Total financial assets	1,901,225	-	1,901,225	1,901,225	-

(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 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

The contractual maturity analysis for financial liabilities as at 31 December 2016 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 2016							
Non-derivative liabilities							
Deposits and balances from banks	27,067	216	350	743	879,299	907,675	716,220
Current accounts and deposits from customers	5,805,708	4,517,377	5,210,017	12,531,828	2,421,273	30,486,203	29,341,142
Other borrowed funds	958,591	24,507	27,155	60,032	1,350,743	2,421,028	2,052,073
Subordinated loans from Parent	-	129,851	-	-	15,691,932	15,821,783	9,868,776
Other financial liabilities	102,560	2,400	-	-	-	104,960	104,960
Total	6,893,926	4,674,351	5,237,522	12,592,603	20,343,247	49,741,649	42,083,171
Credit related commitments	1,592,422	-	-	-	-	1,592,422	1,592,422

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:

	2017 AMD'000	2016 AMD'000
Less than 1 month	1,364,844	1,129,685
From 1 to 3 months	2,575,444	2,820,466
From 3 to 12 months	16,377,132	13,878,896
More than 1 year	8,765,925	2,081,371
	29,083,345	19,910,418

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 table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2016:

	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	14,089,141	-	-	-	-	-	-	14,089,141
Available-for-sale financial assets	-	909,145	3,773,513	10,433,561	6,400,872	13,160	-	21,530,251
Amounts receivable under reverse repurchase agreements	1,901,225	-	-	-	-	-	-	1,901,225
Loans to banks	1,461,240	-	483,937	-	-	207,588	-	2,152,765
Loans to customers	312,241	573,822	1,662,389	10,053,017	6,071,788	-	3,482,358	22,155,615
Property, equipment and intangible assets	-	-	-	-	-	934,836	-	934,836
Other assets	6,940	5,096	41,873	1,372,467	-	-	-	1,426,376
Total assets	17,770,787	1,488,063	5,961,712	21,859,045	12,472,660	1,155,584	3,482,358	64,190,209
Liabilities								
Deposits and balances from banks	27,067	212	1,036	687,905	-	-	-	716,220
Current accounts and deposits from customers	5,802,457	4,465,552	16,937,380	2,135,753	-	-	-	29,341,142
Other borrowed funds	958,564	24,215	82,332	720,688	266,274	-	-	2,052,073
Subordinated loans from Parent	-	129,851	-	-	9,738,925	-	-	9,868,776
Other liabilities	107,710	2,434	3,533	816	6,513	-	-	121,006
Deferred tax liabilities	-	-	-	-	-	213,385	-	213,385
Total liabilities	6,895,798	4,622,264	17,024,281	3,545,162	10,011,712	213,385	-	42,312,602
Net position	10,874,989	(3,134,201)	(11,062,569)	18,313,883	2,460,948	942,199	3,482,358	21,877,607

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 December 2017 is 591.6% (31 December 2016: 768.9%).

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 December 2017 and 31 December 2016:

	2017	2016
	AMD’000	AMD’000
Tier 1 capital	Unaudited	Unaudited
Share capital	23,825,100	23,825,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Accumulated losses	(1,413,175)	(1,824,402)
Deductions	(894,809)	(1,530,682)
Total tier 1 capital	21,825,557	20,778,457
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	1,491,396	853,545
Subordinated loans	10,376,258	9,738,063
Deduction of tier 2 capital as per CBA regulations	(954,876)	(202,379)
Total tier 2 capital	10,912,778	10,389,229
Total capital	32,738,335	31,167,686
Total risk weighted assets	75,483,016	53,024,140
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	43.4%	58.8%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	28.9%	39.2%

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.

	<u>2017</u> <u>AMD'000</u>	<u>2016</u> <u>AMD'000</u>
Contracted amount		
Loan and credit line commitments	3,981,089	1,417,605
Credit card commitments	216,948	147,426
Guarantees and letters of credit	7,303	27,391
	<u>4,205,340</u>	<u>1,592,422</u>

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 December 2017 of these credit related commitments, AMD 3,825,375 thousand (31 December 2016: AMD 1,279,053 thousand) are to four customers (31 December 2016: three 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 years ended 31 December 2017 and 2016 is as follows:

	2017 AMD’000	2016 AMD’000
Short-term employee benefits	208,300	117,559

The outstanding balances and average effective interest rates as at 31 December 2017 and 31 December 2016 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	2017 AMD’000	Average effective interest rate, %	2016 AMD’000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	213,657	10.8%	184,816	10.5%
Loan impairment allowance	(432)		(373)	
Deposits received	1,290,501	4.2%	308,083	5.7%

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 years ended 31 December 2017 and 2016 are as follows:

	2017 AMD'000	2016 AMD'000
Profit or loss		
Interest income	20,215	10,494
Interest expense	(45,512)	(13,374)
Impairment (loss) / release	(59)	(245)

(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 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 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
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	
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	3,853	-	-	-	-	-	3,853
Interest expense	(653,727)	-	-	-	(236,058)	-	(889,785)
Fee and commission income	62	-	-	-	-	-	62
Fee and commission expense	(6,557)	-	(103)	-	-	-	(6,660)
Professional services	(3,238)	-	-	-	-	-	(3,238)

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 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Total AMD'000
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	
Statement of financial position					
Assets					
Cash and cash equivalents					
- in USD	302,422	-	86,749	-	389,171
- in EUR	12,555	-	10,852	-	23,407
- in other currencies	827	-	-	-	827
Liabilities					
Current accounts and deposits from customers					
- in USD	-	-	4	-	4
Subordinated loans from Parent					
- in USD	4,987,736	6.5%	-	-	4,987,736
- in EUR	4,881,040	6.5%	-	-	4,881,040
Profit or loss					
Interest income	364	-	-	-	364
Interest expense	(297,553)	-	-	-	(297,553)
Fee and commission income	4,976	-	-	-	4,976
Fee and commission expense	(5,483)	-	(111)	-	(5,594)
Professional services	(4,163)	-	-	-	(4,163)

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 December 2017 and 31 December 2016 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 2016: 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 28,540,823 thousand (31 December 2016: AMD 22,155,615 thousand) and AMD 45,269,985 thousand (31 December 2016: AMD 29,341,142 thousand) by AMD 1,862,573 thousand (31 December 2016: AMD 539,334 thousand lower) and AMD 7,768 thousand lower (31 December 2016: AMD 24,684 thousand lower) respectively, as at 31 December 2017. 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 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 table below analyses financial instruments measured at fair value at 31 December 2016 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	-	21,517,091	-	21,517,091

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.