

Byblos Bank Armenia cjsc
Interim Financial Statements
for the six months ended 30 June 2018

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Byblos Bank Armenia ejsc
Interim Statement of Profit or Loss and Other Comprehensive Income for the six months ended
30 June 2018

		1 April 2018	1 January 2018	1 April 2017	1 January 2017
		30 June 2018	30 June 2018	30 June 2017	30 June 2017
	Notes	AMD'000	AMD'000	AMD'000	AMD'000
Interest income	4	1,591,699	3,101,272	1,295,860	2,492,469
Interest expense	4	(1,036,105)	(2,048,664)	(785,912)	(1,521,299)
Net interest income	4	555,594	1,052,608	509,948	971,170
Fee and commission income		25,953	51,182	24,864	46,321
Fee and commission expense		(16,394)	(31,431)	(15,796)	(26,644)
Net fee and commission income		9,559	19,751	9,068	19,677
Net foreign exchange gain		19,802	13,403	4,246	12,401
Net gain on assets at FVOCI		282,510	283,497	157,577	261,326
Other operating expenses, net		(21,858)	(44,216)	(18,587)	(48,515)
Operating income		845,607	1,325,043	662,252	1,216,059
Net impairment loss on financial assets	5	(111,979)	(112,200)	(14,294)	(83,425)
Personnel expenses		(153,733)	(315,039)	(165,227)	(287,030)
Other general administrative expenses	6	(127,979)	(229,680)	(134,443)	(222,729)
Profit/(loss) before income tax		451,916	668,124	348,288	622,875
Income tax benefit		29,111	61,158	-	-
Profit/(loss) for the year		481,027	729,282	348,288	622,875
Other comprehensive income for the year, net of income tax					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Fair value reserve for financial assets at FVOCI:					
Net change in fair value		(177,255)	144,545	301,530	419,768
Net change in fair value transferred to profit or loss		(231,772)	(232,850)	(130,886)	(214,462)
Other comprehensive (loss)/ income for the year, net of income tax		(409,027)	(88,305)	170,644	205,306
Total comprehensive income for the year		72,000	640,977	518,932	828,181

The financial statements as set out on pages 3 to 51 were approved by management on 14 July 2018 and were signed on its behalf by:

Hayk Stepanyan
Chief Executive Officer

Ani Sargsyan
Head of Finance and Administration

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

Byblos Bank Armenia ejsc
Interim Statement of Financial Position as at 30 June 2018

	Notes	30 June 2018 AMD'000	31 December 2017 AMD'000
ASSETS			
Cash and cash equivalents	8	8,248,046	7,408,502
Financial assets at FVOCI	9	27,123,574	26,078,994
Amounts receivable under reverse repurchase agreements	10	7,744,471	10,049,975
Loans to banks at amortised cost	11	10,903,046	11,291,962
Loans and advances to customers at amortised cost	12	34,767,299	28,540,823
Property, equipment and intangible assets	13	925,824	952,209
Other assets	14	1,231,874	797,374
Deferred tax assets		29,712	-
Total assets		90,973,846	85,119,839
LIABILITIES			
Deposits and balances from banks	15	1,276,051	703,902
Current accounts and deposits from customers	16	50,280,451	45,269,985
Other borrowed funds	17	4,483,746	4,857,638
Subordinated loans from Parent	18	10,360,492	10,554,309
Other liabilities		189,615	195,391
Total liabilities		66,590,355	61,581,225
EQUITY			
Share capital	19	23,825,100	23,825,100
Share premium		257,149	257,149
Fair value reserve		1,413,346	1,491,396
Accumulated losses		(1,112,104)	(2,035,031)
Total equity		24,383,491	23,538,614
Total liabilities and equity		90,973,846	85,119,839

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

	Notes	1 January 2018 30 June 2018 AMD'000	1 January 2017 30 June 2017 AMD'000
CASH FLOWS USED IN OPERATING ACTIVITIES			
Interest receipts		3,089,168	2,518,054
Interest payments		(1,592,961)	(1,021,514)
Fee and commission receipts		51,233	46,172
Fee and commission payments		(31,434)	(26,659)
Net receipts from financial assets at FVOCI		283,498	261,324
Net receipts from foreign exchange		27,333	24,460
Tax payments (other than income tax)		(4,745)	(9,488)
Salaries and other payments to employees		(269,375)	(233,019)
Other general administrative expenses payments		(193,778)	(178,405)
Other payments		(32,644)	(28,677)
(Increase)/decrease in operating assets			
Financial assets at FVOCI		(1,277,593)	(2,399,278)
Amounts receivable under reverse repurchase agreements		2,316,000	(53,760)
Amounts due from banks at amortised cost		364,754	(8,438,925)
Loans to customers at amortised cost		(6,341,941)	(5,647,557)
Other assets		(433,772)	35,500
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		557,871	27,167
Current accounts and deposits from customers		4,723,949	5,339,499
Payments of other borrowed funds		(356,544)	(135,629)
Other liabilities		(2,307)	1,246
Net cash provided from/(used in) operating activities before income taxes paid		876,712	(9,919,489)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(9,699)	(11,645)
Net cash flows used in investing activities		(9,699)	(11,645)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of convertible loan from a related party		-	3,020,578
Net cash flows from financing activities		-	3,020,578
Net increase in cash and cash equivalents		867,013	(6,910,556)
Effect of changes in exchange rates on cash and cash equivalents		(27,547)	6,330
Cash and cash equivalents at the beginning of the year		7,408,502	14,089,137
Cash and cash equivalents at the end of the period	8	8,247,968	7,184,911

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

Byblos Bank Armenia cjsc
Interim Statement of Changes in Equity for the six-month period ended 30 June 2018

AMD'000	Share capital	Share premium	Fair value reserve	Accumulated losses	Total
Balance as at 1 January 2017	23,825,100	257,149	853,545	(3,058,187)	21,877,607
Total comprehensive income					
Profit for the period	-	-	-	622,875	622,875
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	-	-	419,768	-	419,768
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	(214,462)	-	(214,462)
Total other comprehensive income	-	-	205,306	-	205,306
Total comprehensive income for the period	-	-	205,306	622,875	828,181
Balance as at 30 June 2017	23,825,100	257,149	1,058,851	(2,435,312)	22,705,788
Balance as at 1 January 2018	23,825,100	257,149	1,491,396	(2,035,031)	23,538,614
Impact of adopting IFRS 9			10,255	193,645	203,900
Restated balance at 1 January 2018	23,825,100	257,149	1,501,651	(1,841,386)	23,742,514
Total comprehensive income					
Profit for the period	-	-	-	729,282	729,282
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value, net of deferred tax	-	-	144,545	-	144,545
Net amount transferred to profit or loss, net of deferred tax	-	-	(232,850)	-	(232,850)
Total other comprehensive income	-	-	(88,305)	-	(88,305)
Total comprehensive income for the period	-	-	(88,305)	729,282	640,977
Balance as at 30 June 2018	23,825,100	257,149	1,413,346	(1,112,104)	24,383,491

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

1 Background

(a) Organisation and operations

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

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

The Bank's registered head office is 18/3 Amiryar 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 financial assets at fair value through other comprehensive income 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 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

On initial recognition, a financial asset is classified as measured at:

- amortised cost,
- fair value through other comprehensive income (FVOCI),
- fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- expected credit losses and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Equity investments do not meet the SPPI criteria and are classified as at FVTPL. On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Loans allocated by the bank are measured at amortised cost as they meet the SPPI criteria and are managed within an appropriate business model (business model whose objective is to hold assets to collect contractual cash flows).

Debt instruments are classified as at FVOCI as they are held in a business model in which assets are managed both in order to collect contractual cash flows and for sale.

Equity investments are classified as at FVOCI.

(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 are measured at

- a) amortised cost;
- (b) fair value through other comprehensive income; or
- (c) fair value through profit or loss.

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) Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(v) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(vi) Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(vii) Presentation

Interest income and expense presented in the statement of profit or loss and other comprehensive include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

(viii) 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.

(ix) 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.

(x) 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.

(xi) 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.

(xii) 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.

(xiii) Impairment

The Bank recognises expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

(xiv) Presentation of allowance for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

(xv) Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery.

(xvi) Restructured financial assets

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.

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

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

(e) Intangible assets

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

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

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

(f) Repossessed assets

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

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to

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

Repossessed assets are included in other assets.

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

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 amended standards and interpretations are not expected to have a significant impact on the Bank's'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.*

(n) Change in accounting policy

The bank has adopted IFRS 9 '*Financial Instruments*' with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 '*Financial Instruments: Recognition and Measurement*'.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the six-month period ended 30 June 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the six-month period ended 30 June 2018 under IFRS 9.

IFRS 9 transition details are presented below.

A. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

Financial assets as at 01 January 2018	Original classification under IAS 39	New classification under IFRS 9	AMD'000	
			Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	7,408,502	7,408,399
Financial assets at fair value through other comprehensive income - Debt	Available for sale	FVOCI	26,065,834	26,053,015
Financial assets at fair value through other comprehensive income - Equity	Available for sale	FVOCI	13,160	13,160
Amounts receivable under reverse repurchase agreements	Loans and receivables	Amortised cost	10,049,975	10,049,975
Amounts due from banks at amortised cost	Loans and receivables	Amortised cost	11,291,962	11,291,747
Loans and advances to customers at amortised cost	Loans and receivables	Amortised cost	28,540,823	28,798,526
Total financial assets			83,370,256	83,614,822
Financial liabilities as at 01 January 2018				
Deposits and balances from banks	Amortised cost	Amortised cost	703,902	703,902
Current accounts and deposits from customers	Amortised cost	Amortised cost	45,269,985	45,269,985
Other borrowed funds	Amortised cost	Amortised cost	4,857,638	4,857,638
Subordinated loan	Amortised cost	Amortised cost	10,554,309	10,554,309
Total financial liabilities			61,385,834	61,385,834

B. Reconciliation of the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	AMD '000 IFRS 9 carrying amount 1 January 2018
Financial assets as at 01 January 2018				
Amortised cost				
Cash and cash equivalents				
<i>Opening Balance</i>	7,408,502			
<i>Remeasurement</i>			(103)	
<i>Closing balance</i>				7,408,399
Amounts receivable under reverse repurchase agreements				
<i>Opening Balance</i>	10,049,975			
<i>Remeasurement</i>			-	
<i>Closing balance</i>				10,049,975
Loans to banks				
<i>Opening Balance</i>	11,291,962			
<i>Remeasurement</i>			(215)	
<i>Closing balance</i>				11,291,747
Loans to customers				
<i>Opening Balance</i>	28,540,823			
<i>Remeasurement</i>			257,703	
<i>Closing balance</i>				28,798,526
Total amortised cost	57,291,262	-	247,385	57,548,647
Available for sale				
Investment securities				
<i>Opening Balance</i>	26,078,994			
<i>Remeasurement</i>		(26,078,994)		
<i>Closing balance</i>				-
Total available for sale	26,078,994	(26,078,994)	-	-
FVOCI – debt				
Investment securities:				
<i>Opening balance</i>	-			
<i>From available-for sale</i>		26,065,834		
<i>Closing balance</i>				26,065,834
FVOCI – equity				
Investment securities:				
<i>Opening balance</i>	13,160			
<i>From available-for sale</i>		13,160		
<i>Closing balance</i>				13,160
Total FVOCI	-	26,078,994		26,078,994
Total Financial assets	83,370,256	-	257,385	83,627,641

As a result of adoption of IFRS 9 there was no reclassification or remeasurement of financial liabilities.

C. IFRS transition Effect on the fair value reserve and retained earnings

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the the fair value reserve and retained earnings. There is no impact on other components of equity.

	AMD'000 Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve – FVOCI-debt (31 December 2017 – Fair value reserve – available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	1,491,396
Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI	10,255
Opening balance under IFRS 9 (1 January 2018)	1,501,651
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	(2,035,031)
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	193,644
Opening balance under IFRS 9 (1 January 2018)	(1,841,387)

D. Impairment allowance and provisions

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	31 December 2017 (IAS 39/IAS 37)	Reclassification	Remeasure- ment	AMD'000 1 January 2018 (IFRS 9)
Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans to banks and loans to customers)	4,366,887		26,899	4,393,469
Total measured at amortised cost	4,366,887	-	26,899	4,393,469
Available-for-sale debt investment securities under IAS 39/debt investment securities at FVOCI under IFRS 9	-		12,819	12,819
Total measured at FVOCI	-	-	12,819	12,819
Total	4,366,887	-	39,718	4,406,606

4 Net interest income

	1 April 2018 30 June 2018 AMD'000	1 January 2018 30 June 2018 AMD'000	1 April 2017 30 June 2017 AMD'000	1 January 2017 30 June 2017 AMD'000
Interest income				
Loans to customers at amortised cost	767,499	1,499,358	642,721	1,215,816
Financial assets at FVOCI	653,077	1,283,828	586,150	1,146,686
Loans to banks at amortised cost	103,564	181,418	36,005	60,015
Amounts receivable under reverse repurchase agreements	65,482	132,841	30,282	68,913
Other	2,077	3,827	702	1,039
	1,591,699	3,101,272	1,295,860	2,492,469
Interest expense				
Current accounts and deposits from customers	752,311	1,468,950	511,458	986,366
Subordinated loans from Parent	166,578	335,943	159,967	318,147
Other borrowed funds	93,327	191,033	99,820	188,388
Deposits and balances from banks	23,532	39,834	14,667	28,398
Other	357	12,904	-	-
	1,036,105	2,048,664	785,912	1,521,299
Net interest income	555,594	1,052,608	509,948	971,170

5 Net impairment loss on financial assets

	1 April 2018 30 June 2018 AMD'000	1 January 2018 30 June 2018 AMD'000	1 April 2017 30 June 2017 AMD'000	1 January 2017 30 June 2017 AMD'000
Loans to customers at amortised cost	(115,837)	(116,171)	(22,882)	(80,166)
Other assets	3,858	3,971	8,588	(3,259)
	(111,979)	(112,200)	(14,294)	(83,425)

6 Other general administrative expenses

	1 April 2018 30 June 2018 AMD'000	1 January 2018 30 June 2018 AMD'000	1 April 2017 30 June 2017 AMD'000	1 January 2017 30 June 2017 AMD'000
Advertising and marketing	29,112	37,818	26,483	32,471
Depreciation and amortisation	18,080	35,953	13,876	29,804
Maintenance of computer software	13,480	26,921	11,833	23,324
Repairs and maintenance	6,929	19,259	8,901	22,752
Insurance	9,176	18,046	8,380	16,354
Professional services	8,914	15,754	6,798	13,411
Security	6,206	12,563	6,412	11,960
Taxes other than on income	6,050	11,411	26,895	31,652
Legal services	7,431	10,051	1,500	2,984
Communications and information services	4,949	9,081	4,187	8,322

	1 April 2018 30 June 2018	1 January 2018 30 June 2018	1 April 2017 30 June 2017	1 January 2017 30 June 2017
	AMD'000	AMD'000	AMD'000	AMD'000
Travel expenses	562	4,632	3,523	4,617
Membership expenses	2,477	4,365	1,875	3,750
Office supplies	1,365	3,796	1,510	4,002
Maintenance of cars	1,986	3,463	3,075	5,373
Trainings	564	1,908	909	1,315
Operating lease expense	-	4	-	9
Other	10,698	14,655	8,286	10,629
	127,979	229,680	134,443	222,729

7 Income tax

	1 April 2018 30 June 2018	1 January 2018 30 June 2018	1 April 2017 30 June 2017	1 January 2017 30 June 2017
	AMD'000	AMD'000	AMD'000	AMD'000
Current period tax expense	-	-	-	-
Origination and reversal of temporary differences	29,111	61,158	-	-
Total income tax benefit	29,111	61,158	-	-

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

8 Cash and cash equivalents

	30 June 2018 AMD'000	31 Dec 2017 AMD'000
Cash on hand	444,929	424,579
Nostro accounts with the CBA, including obligatory reserves	6,932,668	6,064,886
Nostro accounts with other banks		
- OECD banks	123,860	104,951
- Other foreign banks	745,397	570,921
- Largest 5 Armenian banks	-	-
- Other Armenian banks	1,114	243,165
Total nostro accounts with other banks	870,371	919,037
Total cash and cash equivalents as shown in the statement of cash flows	8,247,968	7,408,502
Accrued interest	185	-
ECL allowance	(107)	-
Total cash and cash equivalents as shown in the statement of financial position	8,248,046	7,408,502

No cash and cash equivalents are impaired or past due.

As at 30 June 2018 and 31 December 2017 the Bank has no banks, excluding balances with the CBA, whose balances exceeded 10% of the equity.

Nostro accounts with the CBA

Nostro accounts with the CBA are related to settlement activity and are available for withdrawal at

the end of the period.

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 30 June 2018 included in nostro accounts with the CBA, is the amount of obligatory reserve of AMD 6,238,278 thousand for amounts attracted in Armenian drams and foreign currency (2017: AMD 5,233,294 thousand).

9 Financial assets at FVOCI

	30 June 2018 AMD'000	31 December 2017 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	25,849,501	24,801,931
- Securities of international financial institutions	901,073	904,098
- Corporate bonds issued by largest 5 Armenian bank	359,840	359,805
	27,110,414	26,065,834
Equity instruments		
- Corporate shares	13,160	13,160
	27,123,574	26,078,994

None of financial assets at FVOCI are impaired or past due.

Included in financial assets at FVOCI are non-quoted equity securities:

Name	Country of incorporation	Main activity	% Controlled		30 June 2018 AMD'000	31 December 2017 AMD'000
			30 June 2018	31 Decemb 2017		
ArCa	Republic of Armenia	Payment system	1.25%	1.25%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

Investments without a determinable fair value

Equity investments at FVOCI 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

	30 June 2018 AMD'000	31 December 2017 AMD'000
Amounts receivable from 5 largest Armenian banks	4,809,466	4,370,280
Amounts receivable from other Armenian banks	2,935,005	5,679,695
	7,744,471	10,049,975

As 30 June 2018 the Bank has two banks (2017: two), whose balances exceeded 10% of equity. The gross value of these balances as at 30 June 2018 is AMD 7,744,471 thousand (2017: AMD 9,078,801 thousand).

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

Collateral

As at 30 June 2018 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of AMD 8,055,881 thousand (2017: AMD 10,234,433 thousand).

11 Loans to banks at amortised cost

	30 June 2018 AMD'000	31 December 2017 AMD'000
Credit card settlement deposit with the CBA	70,000	142,500
Loans and deposits		
- Largest 5 Armenian banks	2,419,710	3,389,861
- Other Armenian banks	8,343,886	7,688,780
- OECD banks	70,896	70,821
ECL allowance	(1,446)	-
Total loans and deposits	10,833,046	11,149,462
Total loans to banks	10,903,046	11,291,962

No amounts due from banks are impaired or past due.

As at 30 June 2018 included in loans and deposits with OECD banks is AMD 70,896 thousand (2017: AMD 70,821 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Credit card settlement deposit with the CBA

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

(b) Concentration of loans to banks

As at 30 June 2018 the Bank has one bank (2017: three), whose balances exceeded 10% of equity. The gross value of these balances as at 30 June 2018 is AMD 4,785,419 thousand (2017: AMD 8,263,611 thousand).

12 Loans and advances to customers at amortised cost

	30 June 2018 AMD'000	31 December 2017 AMD'000
Loans to corporate customers		
Loans to large corporates	25,766,972	19,486,784
Loans to small and medium sized companies	881,408	1,075,849

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Total loans to corporate customers	26,648,380	20,562,633
Loans to retail customers		
Mortgage loans	10,459,574	10,340,378
Consumer loans secured by real estate	1,080,543	1,131,612
Credit card loans	310,618	233,828
Consumer loans with salary domiciliation	282,177	251,762
Auto loans	161,926	175,259
Small business loans	129,043	147,260
Other	105,587	64,978
Total loans to retail customers	12,529,468	12,345,077
Gross loans to customers	39,177,848	32,907,710
ECL allowance	(4,410,549)	(4,366,887)
Net loans to customers	34,767,299	28,540,823

Movements in the loan impairment allowance by classes of loans to customers for the six-months period ended 30 June 2018 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	4,184,365	209,104	4,393,469
Net charge	29,784	86,387	116,171
Write-offs	(1,015)	(98,076)	(99,091)
Balance at the end of the period	4,213,134	197,415	4,410,549

Movements in the loan impairment allowance by classes of loans to customers for the six-months period ended 30 June 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	43,081	37,085	80,166
Write-offs	(350,608)	(59,181)	(409,789)
Balance at the end of the period	3,595,277	301,101	3,896,378

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

The following table provides information on the credit quality of loans to customers as at 30 June 2018:

	Class 1 AMD'000	Class 2 AMD'000	Class 3 AMD'000	Total loans AMD'000
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	21,221,502	-	-	21,221,502
Impaired loans:				-
- overdue more than 1 year	-	-	4,545,470	4,545,470
Total impaired loans	-	-	4,545,470	4,545,470
Expected credit loss allowance	(254,734)	-	(3,780,481)	(4,035,215)
Total net loans to corporate customers	20,966,768	-	764,989	21,731,757
Loans to small and medium size companies				
Loans without individual signs of impairment	689,209	-	-	689,209
Impaired loans:				-
-overdue more than 1 year	-	-	192,199	192,199
Total impaired loans	-	-	192,199	192,199
Expected credit loss allowance	(10,614)	-	(167,305)	(177,919)
Total net loans to small and medium size companies	678,595	-	24,894	703,489
Gross loans to corporate customers	21,910,711	-	4,737,669	26,648,380
Total expected credit loss on corporate customers	(265,348)	-	(3,947,786)	(4,213,134)
Total net loans to corporate customers	21,645,363	-	789,883	22,435,246
Loans to retail customers				
Mortgage loans				
-not overdue	9,768,554	-	-	9,768,554
- overdue less than 30 days	89,940	15,828	-	105,768
- not overdue, but impaired	-	106,564	-	106,564
- overdue 31-90 days	-	118,410	-	118,410
- overdue 91-180 days	-	-	27,067	27,067
- overdue 181-270 days	-	-	20,759	20,759
- overdue more than 271 days	-	-	312,452	312,452
	9,858,494	240,802	360,278	10,459,574
Expected credit loss allowance	(42,440)	(43,795)	(88,838)	(175,073)
Total net mortgage loans	9,816,054	197,007	271,440	10,284,501
Consumer loans secured by real estate				
-not overdue	961,204	-	-	961,204
- overdue less than 30 days	14,661	1,558	-	16,219
- not overdue, but impaired	-	35,905	-	35,905
- overdue 31-90 days	-	19,805	-	19,805
- overdue 91-180 days	-	-	2,849	2,849
- overdue 181-270 days	-	-	6,681	6,681
- overdue more than 271 days	-	-	37,880	37,880
	975,865	57,268	47,410	1,080,543
Expected credit loss allowance	(2,059)	(3,394)	(3,793)	(9,246)
Total net consumer loans secured by real estate	973,806	53,874	43,617	1,071,297
Consumer loans with salary domiciliation				
- not overdue	271,939	-	-	271,939
- overdue less than 30 days	1,562	-	-	1,562
- not overdue, but impaired	-	8,676	-	8,676
	273,501	8,676	-	282,177
Expected credit loss allowance	(1,422)	(1,011)	-	(2,433)
Total net consumer loans with salary domiciliation	272,079	7,665	-	279,744

	Class 1 AMD'000	Class 2 AMD'000	Class 3 AMD'000	Total loans AMD'000
Credit cards				
- not overdue	304,388	-	-	304,388
- overdue less than 30 days	1,942	-	-	1,942
- not overdue, but impaired	-	3,793	-	3,793
- overdue 31-90 days	-	495	-	495
	<u>306,330</u>	<u>4,288</u>	<u>-</u>	<u>310,618</u>
Expected credit loss allowance	(6,166)	(686)	-	(6,852)
Total net credit cards	300,164	3,602	-	303,766
Auto loans				
- not overdue	146,190	-	-	146,190
- overdue less than 30 days	5,112	-	-	5,112
- not overdue, but impaired	-	5,599	-	5,599
- overdue 31-90 days	-	3,725	-	3,725
- overdue more than 271 days	-	-	1,300	1,300
	<u>151,302</u>	<u>9,324</u>	<u>1,300</u>	<u>161,926</u>
Expected credit loss allowance	(377)	(639)	(208)	(1,224)
Total net auto loans	150,925	8,685	1,092	160,702
Small business loans				
- not overdue	114,489	-	-	114,489
- not overdue, but impaired	-	1,809	-	1,809
- overdue 31-90 days	-	5,121	-	5,121
- overdue 91-180 days	-	-	1,502	1,502
- overdue more than 271 days	-	-	6,122	6,122
	<u>114,489</u>	<u>6,930</u>	<u>7,624</u>	<u>129,043</u>
Expected credit loss allowance	(585)	(550)	(1,452)	(2,587)
Total net small business loans	113,904	6,380	6,172	126,456
Other retail loans				
- not overdue	105,587	-	-	105,587
	<u>105,587</u>	<u>-</u>	<u>-</u>	<u>105,587</u>
Expected credit loss allowance	-	-	-	-
Total net other retail loans	105,587	-	-	105,587
Gross retail loans	11,785,568	327,288	416,612	12,529,468
Total expected credit loss allowance on retail loans	(53,049)	(50,075)	(94,291)	(197,415)
Total net retail loans	11,732,519	277,213	322,321	12,332,053
Total net loans to customers	33,377,882	277,213	1,112,204	34,767,299

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
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
Auto loans				
- not overdue	161,829	(324)	161,505	0.2
- not overdue, but impaired	5,371	(537)	4,834	10.0
- overdue 31-90 days	5,100	(1,020)	4,080	20.0
- overdue 91-180 days	1,659	(332)	1,327	20.0
- overdue more than 271 days	1,300	(260)	1,040	20.0
Total auto loans	175,259	(2,473)	172,786	1.4
Small business loans				
- not overdue	139,392	(1,394)	137,998	1.0
- not overdue, but impaired	117	(35)	82	29.9
- overdue less than 30 days	2,500	(1,750)	750	70.0
- overdue more than 271 days	5,251	(3,676)	1,575	70.0
Total small business loans	147,260	(6,855)	140,405	4.7
Other retail loans				
- not overdue	64,978	-	64,978	0.0
Total other retail loans	64,978	-	64,978	0.0
Total loans to retail customers	12,345,077	(235,017)	12,110,060	1.90
Total loans to customers	32,907,710	(4,366,887)	28,540,823	13.3

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

According to IFRS 9 the bank calculates impairment of loans based on expected credit losses.

For the purpose of calculation of expected credit losses the bank classifies its loans into the following categories

- Class 1 – non overdue and up to 30 days overdue not credit impaired assets, for which 12 months ECL is recognized,
- Class 2 (significant increase in credit risk) – assets overdue 31-89 days, including restructured assets overdue up to 90 days and non overdue subjectively classified assets, for which lifetime ECL is recognised,
- Class 3 (default) – assets overdue more than 90 days, for which lifetime ECL is recognised,

. The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL calculations are based on the following basic assumptions.

For commercial loans PDs are based on estimates made by the Group for each customer.

PDs for retail loans are calculated based on transition probabilities matrix derived from historical data.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and for secured loans LTV ratios are a key parameter in determining LGD.

The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The main assumptions used in the above calculation are the following:

- market value of retail collaterals are discounted by 30% to receive liquid value,
- cash flows from retail collaterals are expected after 2-3 years,
- collaterals of commercial loans are considered individually based on their specifications.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract.

Calculations of EAD for retail loans are made on a portfolio basis and for commercial loans individually.

For portfolios in respect of which the Bank has limited historical data or existing historical data are not applicable, external benchmark information is used to supplement the internally available data.

(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:

30 June 2018		Fair value of collateral: for collateral assessed as of loan reporting date	Fair value of collateral: for collateral: assessed as of loan inception date
AMD'000	Loans to customers, carrying amount		
Loans without individual signs of impairment			
Real estate	11,371,493	-	11,371,493
Bank account turnover	5,439,930	-	5,439,930
No collateral	4,833,940	-	4,833,940
Total loans without individual signs of impairment	21,645,363	-	21,645,363
Overdue or impaired loans			
Real estate	789,882	789,882	-
Total overdue or impaired loans	789,882	789,882	-
Total loans to corporate customers	22,435,245	789,882	21,645,363

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

The tables above exclude overcollateralisation.

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

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

(ii) Loans to retail customers

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

(iii) Repossessed collateral

During the six months ended 30 June 2018, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 140,074 thousand (31 December 2017: AMD 38,975 thousand). Part of the repossessed collateral in the amount of AMD 33,657 thousand was sold during the six months ended 30 June 2018 (31 December 2017: AMD 629,856 thousand).

As at 30 June 2018 and 31 December 2017, the repossessed collateral comprises:

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Real estate	814,371	703,129
Other assets	-	4,824
Total repossessed collateral	814,371	707,953

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

(d) Asset under lien

As at 30 June 2018, loans to customers with a gross value of AMD 1,162,675 thousand (31 December 2017: AMD 1,345,984 thousand) serve as collateral for deposits and balances from banks and other borrowed funds (see notes 15 and 17).

(e) Industry and geographical analysis of the loan portfolio

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

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Energy and gas	10,343,387	7,144,214
Processing of agricultural produce	4,033,072	2,833,704
Trade	3,289,290	3,110,338
Real estate	3,186,395	3,101,523
Construction	2,130,326	854,478
Manufacturing	1,696,616	1,472,588
Transport	1,593,994	1,704,271
Public catering and other services	375,300	341,517
Loans to retail customers	12,529,468	12,345,077
	39,177,848	32,907,710
ECL allowance	(4,410,549)	(4,366,887)
	34,767,299	28,540,823

(f) Significant credit exposures

As at 30 June 2018 the Bank has three borrowers or groups of connected borrowers (31 December 2017: two), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 30 June 2018 is AMD 13,124,557 thousand (31 December 2017: AMD 8,021,092 thousand).

(g) Loan maturities

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

13 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2018	954,248	298,081	259,952	44,265	-	165,307	1,721,853
Additions	-	8,897	671	-	-	-	9,568
Disposals	-	(3,268)	(36)	-	-	-	(3,304)
Balance at 30 June 2018	954,248	303,710	260,587	44,265	-	165,307	1,728,117
Depreciation and amortization							
Balance at 1 January 2018	(203,248)	(245,378)	(205,468)	(18,942)	-	(96,608)	(769,644)
Depreciation and amortization for the period	(10,097)	(12,777)	(10,283)	(2,687)	-	(109)	(35,953)
Disposals	-	3,268	36	-	-	-	3,304
Balance at 30 June 2018	(213,345)	(254,887)	(215,715)	(21,629)	-	(96,717)	(802,293)
Carrying amount							
At 30 June 2018	740,903	48,823	44,872	22,636	-	68,590	925,824
Cost							
Balance at 1 January 2017	947,195	276,664	291,655	40,839	-	164,376	1,720,729
Additions	7,053	29,549	13,758	27,073	-	931	78,364
Disposals	-	(8,132)	(45,461)	(23,647)	-	-	(77,240)
Balance at 31 December 2017	954,248	298,081	259,952	44,265	-	165,307	1,721,853
Depreciation and amortization							
Balance at 1 January 2017	(183,143)	(235,735)	(229,825)	(40,839)	-	(96,351)	(785,893)
Depreciation and amortization for the year	(20,105)	(17,764)	(21,064)	(1,750)	-	(257)	(60,940)
Disposals	-	8,121	45,421	23,647	-	-	77,189
Balance at 31 December 2017	(203,248)	(245,378)	(205,468)	(18,942)	-	(96,608)	(769,644)
Carrying amount							
At 31 December 2017	751,000	52,703	54,484	25,323	-	68,699	952,209

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the six months ended 30 June 2018 (2017: nil).

14 Other assets

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Receivables under money transfer and clearing systems	4,990	4,169
Other receivables	333,871	12,785
Total other financial assets	338,861	16,954
Repossessed assets	814,371	707,953
Income tax prepayments	-	47,134
Other prepayments	48,714	-
Other	29,928	25,333
Total other non-financial assets	893,013	780,420
Total other assets	1,231,874	797,374

During the six months ended 30 June 2018 receivables in the amount of AMD 832 thousand were recovered (2017: net write-off of AMD 5,537 thousand).

Management believes that the carrying amount of repossessed assets approximately equals their fair value less costs to sell as at 30 June 2018 and 31 December 2017.

15 Deposits and balances from banks

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Loans and term deposits	1,276,051	703,902

As at 30 June 2018 the Bank has no bank, whose balance exceeded 10% of equity (2017: none).

16 Current accounts and deposits from customers

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Current accounts and demand deposits		
- Retail	5,361,809	4,673,749
- Corporate	1,292,160	1,000,906
Term deposits		
- Retail	30,640,397	29,526,386
- Corporate	12,986,085	10,068,944
	50,280,451	45,269,985

As at 30 June 2018 the Bank maintained customer deposit balances of AMD 373,514 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2017: AMD 465,821 thousand).

As at 30 June 2018 the Bank has one customer (2017: one), whose balances exceeded 10% of equity. The gross value of these balances as at 30 June 2018 is AMD 2,977,225 thousand (31 December 2017: AMD 2,681,545 thousand).

17 Other borrowed funds

	30 June 2018 AMD'000	31 December 2017 AMD'000
Loan from a related party	3,054,570	3,066,241
Loans from National Mortgage Company	994,388	1,191,370
Loan from International Financial Corporation (IFC)	374,278	562,898
Other	60,510	37,129
	4,483,746	4,857,638

(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 30 June 2018.

(b) Breach of covenants

The Bank breached some of its maximum covenant thresholds under the loan agreement with IFC. As at 30 June 2018 and 31 December 2017 the management did not obtain a waiver, so that these loans were payable on demand as at 30 June 2018 and 31 December 2017. Accordingly, the loans from IFC of AMD 374,278 thousand (31 December 2017: loans from IFC of AMD 562,898 thousand) are classified as being due on demand in the interest rate gap, liquidity and maturity tables in note 20.

(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 30 June 2018 and 31 December 2017.

19 Share capital and reserves

(a) Issued capital and share premium

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

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

(b) Nature and purpose of reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets at FVOCI, until the assets are derecognized or impaired.

(c) Dividends

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

20 Risk management

(a) Risk management policies and procedures

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

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

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

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

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

(b) Market risk

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

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

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
30 June 2018							
ASSETS							
Cash and cash equivalents	869,544	-	-	-	-	7,378,502	8,248,046
Financial assets at FVOCI	210,968	643,527	1,746,268	10,390,057	14,119,594	13,160	27,123,574
Amounts receivable under reverse repurchase agreements	7,744,471	-	-	-	-	-	7,744,471
Amounts due from banks at amortised cost	5,932,214	2,419,240	-	2,410,696	70,896	70,000	10,903,046
Loans to customers at amortised cost	5,417,043	1,875,964	2,522,833	17,432,401	7,519,060	-	34,767,301
Other financial assets	-	-	-	-	-	338,873	338,873
	20,174,240	4,938,731	4,269,101	30,233,154	21,709,550	7,800,535	89,125,311

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
LIABILITIES							
Deposits and balances from banks	41,038	5,644	-	1,229,369	-	-	1,276,051
Current accounts and deposits from customers	22,241,343	9,140,450	10,549,988	6,571,726	10,217	1,766,727	50,280,451
Other borrowed funds	479,088	27,170	63,947	3,641,287	272,254	-	4,483,746
Subordinated loans from Parent	174,716	-	-	-	10,185,776	-	10,360,492
Other financial liabilities	-	-	-	-	-	146,842	146,842
	22,936,185	9,173,264	10,613,935	11,442,382	10,468,247	1,913,569	66,547,582
	(2,761,945)	(4,234,533)	(6,344,834)	18,790,772	11,241,303	5,886,966	22,577,729
31 December 2017							
AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
ASSETS							
Cash and cash equivalents	918,132	-	-	-	-	6,490,370	7,408,502
Available-for-sale financial assets	1,685,051	1,299,957	370,577	10,709,342	12,000,907	13,160	26,078,994
Amounts receivable under reverse repurchase agreements	10,049,975	-	-	-	-	-	10,049,975
Loans to banks	11,078,641	-	-	-	70,821	142,500	11,291,962
Loans to customers	2,128,118	2,129,670	1,954,342	14,776,419	7,552,274	-	28,540,823
Other financial assets	-	-	-	-	-	16,954	16,954
	25,859,917	3,429,627	2,324,919	25,485,761	19,624,002	6,662,984	83,387,210
LIABILITIES							
Deposits and balances from banks	25,791	386	8,455	669,270	-	-	703,902
Current accounts and deposits from customers	13,808,625	6,767,691	14,185,336	9,067,470	32,354	1,408,509	45,269,985
Other borrowed funds	676,019	33,446	70,821	3,766,808	310,544	-	4,857,638
Subordinated loans from Parent	177,984	-	-	-	10,376,325	-	10,554,309
Other financial liabilities	-	-	-	-	-	132,642	132,642
	14,688,419	6,801,523	14,264,612	13,503,548	10,719,223	1,541,151	61,518,476
	11,171,498	(3,371,896)	(11,939,693)	11,982,213	8,904,779	5,121,833	21,868,734

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 30 June 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2018			31 December 2017		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Financial assets at FVOCI	10.6%	6.4%	-	10.9%	6.4%	-
Amounts receivable under reverse repurchase agreements	6.3%	2.8%	-	6.0%	1.5%	-
Amounts due from banks at amortised cost	6.3%	4.3%	-	5.8%	2.0%	1.0%
Loans to customers at amortised cost	14.0%	6.1%	7.0%	13.5%	6.3%	8.0%
Interest bearing liabilities						
Deposits and balances from banks	8.1%	-	-	8.1%	-	-

	30 June 2018			31 December 2017		
	Average effective interest rate, %			Average effective interest rate, %		
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.4%	1.1%	0.4%	2.5%	1.4%	0.6%
- Term deposits	10.6%	4.7%	2.9%	11.0%	4.9%	2.9%
Other borrowed funds	9.0%	8.1%	-	9.1%	8.0%	-
Subordinated loans from parent	-	6.5%	6.5%	-	6.5%	6.5%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 30 June 2018 and 31 December 2017, respectively, as follows:

	30 June 2018	31 December 2017
	AMD'000	AMD'000
100 bp parallel fall	37,798	99,137
100 bp parallel rise	(37,798)	(99,137)

An analysis of sensitivity of net profit or loss and equity as a result of changes in fair value of financial assets at FVOCI due to changes in the interest rates based on positions existing at 30 June 2018 and 31 December 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	30 June 2018		31 December 2017	
	Net profit or loss	Equity	Net profit or loss	Equity
	AMD'000	AMD'000	AMD'000	AMD'000
100 bp parallel fall	-	1,032,635	-	929,630
100 bp parallel rise	-	(1,032,635)	-	(929,630)

(ii) Currency risk

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

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 June 2018:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	6,134,168	1,606,542	483,928	23,408	8,248,046

Financial assets at FVOCI	25,627,625	1,495,949	-	-	27,123,574
Amounts receivable under reverse repurchase agreements	4,256,196	3,488,275	-	-	7,744,471
Amounts due from banks at amortised cost	3,672,447	6,781,097	449,502	-	10,903,046
Loans to customers at amortised cost	7,261,646	21,938,746	5,566,907	-	34,767,299
Other financial assets	325,341	12,666	863	3	338,873
Total assets	47,277,423	35,323,275	6,501,200	23,411	89,125,309
LIABILITIES					
Deposits and balances from banks	1,276,051	-	-	-	1,276,051
Current accounts and deposits from customers	19,968,332	29,072,417	1,232,261	7,441	50,280,451
Other borrowed funds	1,051,407	3,432,339	-	-	4,483,746
Subordinated loans from Parent	-	5,003,934	5,356,558	-	10,360,492
Other financial liabilities	146,632	23	187	-	146,842
Total	22,442,422	37,508,713	6,589,006	7,441	66,547,582
Net position	24,835,001	(2,185,438)	(87,806)	15,970	22,577,727

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	4,825,915	2,085,350	484,235	13,002	7,408,502
Available-for-sale financial assets	24,513,400	1,565,594	-	-	26,078,994
Amounts receivable under reverse repurchase agreements	5,679,695	4,370,280	-	-	10,049,975
Amounts due from banks	1,042,925	9,958,892	290,145	-	11,291,962
Loans to customers	6,850,199	15,861,655	5,828,969	-	28,540,823
Other financial assets	4,246	12,688	20	-	16,954
Total assets	42,916,380	33,854,459	6,603,369	13,002	83,387,210
LIABILITIES					
Deposits and balances from banks	703,902	-	-	-	703,902
Current accounts and deposits from customers	16,622,326	27,525,558	1,114,460	7,641	45,269,985
Other borrowed funds	1,222,559	3,635,079	-	-	4,857,638
Subordinated loans from Parent	-	5,023,342	5,530,967	-	10,554,309
Other financial liabilities	132,446	-	196	-	132,642
Total	18,681,233	36,183,979	6,645,623	7,641	61,518,476
Net position	24,235,147	(2,329,520)	(42,254)	5,361	21,868,734

A weakening of the AMD, as indicated below, against the following currencies at 30 June 2018 and 31 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	30 June 2018 AMD'000	31 December 2017 AMD'000
10% appreciation of USD against AMD	(218,544)	(232,952)
10% appreciation of EUR against AMD	(8,781)	(4,225)

A strengthening of the AMD against the above currencies at 30 June 2018 and 31 December 2017

would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

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

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

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits. Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks. The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	30 June 2018	31 December 2017
	AMD’000	AMD’000
Assets		
Cash and cash equivalents	7,803,117	6,983,923
Financial assets at FVOCI	27,123,574	26,078,994
Amounts receivable under reverse repurchase agreements	7,744,471	10,049,975
Amounts due from banks at amortised cost	10,903,046	11,291,962
Loans to customers at amortised cost	34,767,299	28,540,823
Other financial assets	338,873	16,954
Total maximum exposure	88,680,381	82,962,631

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

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

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting

date is presented in note 22.

As at 30 June 2018 the Bank has one debtor or groups of connected debtors (2017: one), credit risk exposure to whom exceeded 10 percent maximum credit risk exposure. The credit risk exposure for this customer as at 30 June 2018 is AMD 25,849,501 thousand (2017: AMD 24,801,931 thousand).

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

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

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

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

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

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 30 June 2018:

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offsetting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	7,744,471	-	7,744,471	7,744,471	-
Total financial assets	7,744,471	-	7,744,471	7,744,471	-

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

AMD'000

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

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow

disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The contractual maturity analysis for financial liabilities as at 30 June 2018 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
30 June 2018							
Non-derivative liabilities							
Deposits and balances from banks	39,590	1,464	5,873	-	1,569,983	1,616,910	1,276,051
Current accounts and deposits from customers	14,001,536	10,110,115	9,355,706	11,080,754	7,319,284	51,867,395	50,280,451
Other borrowed funds	389,421	90,014	28,157	68,488	4,878,919	5,454,999	4,483,746
Subordinated loans from Parent	-	174,716	-	-	15,430,566	15,605,282	10,360,492
Other financial liabilities	146,002	-	-	840	-	146,842	146,842
Total	14,576,549	10,376,309	9,389,736	11,150,082	29,198,752	74,691,428	66,547,582
Credit related commitments	2,650,269	-	-	-	-	2,650,269	2,650,269

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

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

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

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Less than 1 month	1,913,892	1,364,844
From 1 to 3 months	6,791,071	2,575,444
From 3 to 12 months	16,940,635	16,377,132
More than 1 year	4,282,681	8,765,925
	29,928,279	29,083,345

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 30 June 2018:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	8,248,046	-	-	-	-	-	-	8,248,046
Financial assets at FVOCI	170,656	40,312	2,389,795	10,390,057	14,119,594	13,160	-	27,123,574
Amounts receivable under reverse repurchase agreements	7,744,471	-	-	-	-	-	-	7,744,471
Amounts due from banks at amortised cost	5,928,350	3,864	2,419,240	2,410,696	-	140,896	-	10,903,046
Loans to customers at amortised cost	428,869	4,988,172	4,398,797	13,877,376	7,519,060	-	3,555,025	34,767,299
Property, equipment and intangible assets	-	-	-	-	-	925,824	-	925,824
Deferred tax asset	-	-	-	-	-	29,712	-	29,712
Other assets	13,217	326,797	58,192	826,371	7,297	-	-	1,231,874
Total assets	22,533,609	5,359,145	9,266,024	27,504,500	21,645,951	1,109,592	3,555,025	90,973,846
Liabilities								
Deposits and balances from banks	39,590	1,448	5,644	1,229,369	-	-	-	1,276,051
Current accounts and deposits from customers	13,987,645	10,006,068	19,695,455	6,576,726	14,557	-	-	50,280,451
Other borrowed funds	389,387	89,702	91,116	3,641,287	272,254	-	-	4,483,746
Subordinated loans from Parent	-	174,716	-	-	10,185,776	-	-	10,360,492
Other liabilities	178,446	34	4,113	816	6,206	-	-	189,615
Total liabilities	14,595,068	10,271,968	19,796,328	11,448,198	10,478,793	-	-	66,590,355
Net position	7,938,541	(4,912,823)	(10,530,304)	16,056,302	11,167,158	1,109,592	3,555,025	24,383,491

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

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

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported unaudited ratios of highly liquid assets to demand liabilities at 30 June 2018 is 462.3% (31 December 2017: 591.6%).

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

(e) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

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

21 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, which are based on Basel Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 30 June 2018, this minimum level is 12% (2017: 12%). The Bank is in compliance with the statutory capital ratio as at 30 June 2018 and 31 December 2017.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Tier 1 capital		
Share capital	23,825,100	23,825,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Accumulated losses	(427,327)	(1,413,175)
Deductions	(951,797)	(894,809)
Total tier 1 capital	22,754,417	21,825,557
Tier 2 capital		
Fair value reserve	1,406,562	1,491,396
Subordinated loans	10,185,817	10,376,258
Deduction of tier 2 capital as per CBA regulations	(2,490,612)	(954,876)
Total tier 2 capital	9,101,767	10,912,778
Total capital	31,856,184	32,738,335
Total risk weighted assets	81,516,510	75,483,016
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	39.1%	43.4%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	27.9%	28.9%

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

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

22 Credit related commitments

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

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

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

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

	30 June 2018	31 December 2017
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	1,869,326	3,981,089
Credit card commitments	294,948	216,948
Guarantees and letters of credit	485,995	7,303
	2,650,269	4,205,340

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

As at 30 June 2018 of these credit related commitments, AMD 1,739,870 thousand (31 December 2017: AMD 3,825,375 thousand) are to three customers (31 December 2017: four customers). This exposure represents a significant credit risk exposure to the Bank.

23 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 500,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 110,000 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 six months ended 30 June 2018 and 2017 is as follows:

	1 January 2018 30 June 2018 AMD'000	1 January 2017 30 June 2017 AMD'000
Short-term employee benefits	<u>107,621</u>	<u>101,993</u>

The outstanding balances and average effective interest rates as at 30 June 2018 and 31 December 2017 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	30 June 2018 AMD'000	Average effective interest rate, %	31 December 2017 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	209,327	10.8%	213,657	10.8%
Loan impairment allowance	(834)		(432)	
Deposits received	<u>1,344,489</u>	<u>3.6%</u>	<u>1,290,501</u>	<u>4.2%</u>

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 six months ended 30 June 2018 and 2017 are as follows:

	1 January 2018 30 June 2018 AMD'000	1 January 2017 30 June 2017 AMD'000
Profit or loss		
Interest income	5,729	9,765
Interest expense	(11,925)	(18,217)
Impairment (loss) / release	(15)	(13)

(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 30 June 2018 and related profit or loss amounts of transactions for six months ended 30 June 2018 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Other companies related with the parent company		Total AMD'000
	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	552,822	-	102,403	-	-	-	655,225
- in EUR	171,920	-	21,457	-	-	-	193,377
- in other currencies	19,637	-	-	-	-	-	19,637
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	-	-	-
Other borrowed funds							
- in USD	-	-	-	-	2,989,888	8.3%	2,989,888
Subordinated loans from Parent							
- in USD	4,918,848	6.5%	-	-	-	-	4,918,848
- in EUR	5,266,969	6.5%	-	-	-	-	5,266,969
Profit or loss							
Interest income	3,295	-	-	-	-	-	3,295
Interest expense	(335,943)	-	-	-	(123,637)	-	(459,580)
Fee and commission income	3,430	-	-	-	-	-	3,430
Fee and commission expense	(4,183)	-	(59)	-	-	-	(4,242)
Professional services	(2,748)	-	-	-	-	-	(2,748)

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the six months ended 30 June 2017 with other related parties are as follows:

	<u>Parent company</u>		<u>Other subsidiaries of the parent company</u>		<u>Other companies related with the parent company</u>		<u>Total AMD'000</u>
	<u>AMD'000</u>	<u>Average effective interest rate, %</u>	<u>AMD'000</u>	<u>Average effective interest rate, %</u>	<u>AMD'000</u>	<u>Average effective interest rate, %</u>	
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	1,037	-	-	-	-	-	1,037
Interest expense	(318,146)	-	-	-	(110,663)	-	(428,809)
Fee and commission expense	(3,335)	-	(103)	-	-	-	(3,438)
Professional services	(405)	-	-	-	-	-	(405)

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 and AMD denominated loans to customers and term deposits from customers as at 30 June 2018 and 31 December 2017 approximate their carrying amounts. The fair value of unquoted equity securities with a carrying value of AMD 13,160 thousand as at 30 June 2018 (31 December 2017: AMD 13,160 thousand) could not be determined.

The fair values of loans to customers and current accounts and term deposits are higher than their carrying values of AMD 34,767,299 thousand (31 December 2017: AMD 28,540,823 thousand) and AMD 50,280,451 thousand (31 December 2017: AMD 45,269,985 thousand) by AMD 1,870,689 thousand (31 December 2017: AMD 1,862,573 thousand lower) and AMD 87,436 thousand (31 December 2017: AMD 7,768 thousand lower) respectively, as at 30 June 2018. The fair value measurements of loans to customers, current accounts and term deposits from customers are categorized into Level 2 respectively in the fair value hierarchy.

The table below analyses financial instruments measured at fair value at 30 June 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI				
- Debt instruments	-	27,110,414	-	27,110,414

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

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

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

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