Byblos Bank Armenia cjsc

Financial Statements

for the year ended 31 December 2016

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Independent Auditors' Report

To the Board of Directors of Byblos Bank Armenia cjsc

Opinion

We have audited the financial statements of Byblos Bank Armenia cjsc (the "Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc

KPMG Armenia cjsc
2 March 2017

	Notes	2016 AMD'000	2015 AMD'000
Interest income	4	3,526,351	3,169,375
Interest expense	4	(2,163,173)	(2,687,202)
Net interest income		**1,363,178**	**482,173**
Fee and commission income	5	93,859	101,047
Fee and commission expense	6	(40,350)	(51,945)
Net fee and commission income		**53,509**	**49,102**
Net foreign exchange gain	7	75,874	68,119
Net gain on available-for-sale financial assets		-	5,927
Other operating expenses, net	8	(65,559)	(106,231)
Operating income		**1,427,002**	**499,090**
Impairment losses	9	(679,982)	(1,335,515)
Personnel expenses		(467,952)	(709,801)
Other general administrative expenses	10	(435,555)	(578,899)
Loss before income tax		**(156,487)**	**(2,125,125)**
Income tax expense	11	-	(25,747)
Loss for the year		**(156,487)**	**(2,150,872)**
Other comprehensive income/(loss) for the year, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
Net change in fair value		925,755	(183,360)
Net change in fair value transferred to profit or loss		-	(4,742)
Other comprehensive income/(loss) for the year, net of income tax		**925,755**	**(188,102)**
Total comprehensive income/(loss) for the year		**769,268**	**(2,338,974)**

The financial statements as set out on pages 5 to 54 were approved by management on 2 March 2017 and were signed on its behalf by:

Hayk Stepanyan
Acting Chief Executive Officer

Manana Tarposhyan
Head of Finance and Administration

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

	Notes	2016 AMD'000	2015 AMD'000
Assets			
Cash and cash equivalents	12	14,089,141	10,524,823
Available-for-sale financial assets	13	21,530,251	4,118,433
Amounts receivable under reverse repurchase agreements	14	1,901,225	-
Amounts due from banks	15	2,152,765	4,580,257
Loans to customers	16	22,155,615	17,954,950
Property, equipment and intangible assets	17	934,836	1,014,575
Deferred tax assets	11	-	18,054
Other assets	18	1,426,376	1,527,210
Total assets		**64,190,209**	**39,738,302**
Liabilities			
Deposits and balances from banks	19	716,220	662,511
Current accounts and deposits from customers	20	29,341,142	28,572,000
Other borrowed funds	21	2,052,073	2,401,429
Subordinated loans from Parent	22	9,868,776	2,477,811
Deferred tax liabilities	11	213,385	-
Other liabilities	23	121,006	216,212
Total liabilities		**42,312,602**	**34,329,963**
Equity			
Share capital	24	23,825,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		853,545	(72,210)
Accumulated losses		(3,058,187)	(2,901,700)
Total equity		**21,877,607**	**5,408,339**
Total liabilities and equity		**64,190,209**	**39,738,302**

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

	Notes	2016 AMD'000	2015 AMD'000
Cash flows from operating activities			
Interest receipts		3,057,227	3,351,837
Interest payments		(2,156,415)	(2,877,390)
Fee and commission receipts		92,573	101,051
Fee and commission payments		(40,308)	(51,897)
Net receipts from available-for-sale financial assets		-	5,927
Net receipts from foreign exchange		50,887	129,863
Tax payments (other than income tax)		(82,383)	(9,837)
Salaries and other payments to employees		(467,046)	(719,306)
Other general administrative expenses payments		(332,944)	(491,078)
Other operating (expenses)/receipts		(75,230)	41,868
(Increase)/decrease in operating assets			
Available-for-sale financial assets		(15,784,888)	(1,083,948)
Amounts receivable under reverse repurchase agreements		(1,899,980)	-
Amounts due from banks		2,390,311	11,476,824
Loans to customers		(5,020,406)	9,191,214
Other assets		49,694	(1,022,529)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		69,895	(4,521,027)
Amounts payable under repurchase agreements		-	(3,053,802)
Current accounts and deposits from customers		822,387	(5,408,169)
Payments of other borrowed funds		(346,552)	(971,619)
Other liabilities		(49,378)	54,752
Net cash (used in)/from operating activities before income taxes paid		**(19,722,556)**	**4,142,734**
Income tax paid		-	(19,875)
Net cash (used in)/from operating activities		**(19,722,556)**	**4,122,859**
Cash flows from investing activities			
Purchases of property and equipment and intangible assets		(6,854)	(24,353)
Net cash flows used in investing activities		**(6,854)**	**(24,353)**
Cash flows from financing activities			
Receipt of subordinated loans from Parent		7,489,600	2,382,100
Proceeds from issuance of shares		15,700,000	-
Cash flows from financing activities		**23,189,600**	**2,382,100**
Net increase in cash and cash equivalents		**3,460,190**	**6,480,606**
Effect of changes in exchange rates on cash and cash equivalents		104,137	(199,952)
Cash and cash equivalents at the beginning of the year		10,524,811	4,244,157
Cash and cash equivalents at the end of the year	12	**14,089,138**	**10,524,811**

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

AMD'000	Share capital	Share premium	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2015	8,125,100	257,149	115,892	(750,828)	7,747,313
Total comprehensive loss					
Loss for the year	-	-	-	(2,150,872)	(2,150,872)
Other comprehensive loss					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	(183,360)	-	(183,360)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	(4,742)	-	(4,742)
Total other comprehensive loss	-	-	(188,102)	-	(188,102)
Total comprehensive loss for the year	**-**	**-**	**(188,102)**	**(2,150,872)**	**(2,338,974)**
Balance as at 31 December 2015	**8,125,100**	**257,149**	**(72,210)**	**(2,901,700)**	**5,408,339**
Balance as at 1 January 2016	8,125,100	257,149	(72,210)	(2,901,700)	5,408,339
Total comprehensive income					
Loss for the year	-	-	-	(156,487)	(156,487)
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	925,755	-	925,755
Total other comprehensive income	-	-	925,755	-	925,755
Total comprehensive income for the year	**-**	**-**	**925,755**	**(156,487)**	**769,268**
Transactions with owners, recorded directly in equity					
Shares issued	15,700,000	-	-	-	15,700,000
Total transactions with owners	**15,700,000**	**-**	**-**	**-**	**15,700,000**
Balance as at 31 December 2016	**23,825,100**	**257,149**	**853,545**	**(3,058,187)**	**21,877,607**

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

1 Background

(a) Organisation and operations

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

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

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

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

(i) Shareholders

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

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

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

(b) Armenian business environment

The Bank's operations are located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

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

- loan impairment estimates – note 16;
- estimates of fair values of financial assets – note 30;
- fair value of forward and option instruments of subordinated loans from Parent – note 22.

3 Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortized cost

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

(v) Fair value measurement principles

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

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

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

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

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

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

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

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

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

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

(x) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

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

(e) Intangible assets

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

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

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

(f) Repossessed assets

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

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

Repossessed assets are included in other assets.

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

(g) Impairment

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

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

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

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

The accounting treatment of such restructuring is as follows:

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

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

(i) Financial assets carried at amortized cost

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

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

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

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(h) Provisions

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

(i) Credit related commitments

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

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

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

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

Loan commitments are not recognized, except for the followings:

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

(j) Share capital

(i) Ordinary shares

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

(ii) Share premium

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

(iii) Dividends

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

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

(k) Taxation

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

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.

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

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

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

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

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

(l) Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.
Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

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

(m) Leases

Operating – Bank as lessee

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

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

  Classification and measurement

  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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

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

  Impairment

  IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PD x LGD x EAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Bank does not intend to adopt the standard earlier.

The Bank has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Banks's financial statements. Currently the Bank is in the process of development of IFRS 9 implementation plan.

The following new or amended standards are not expected to have a significant impact of the Bank's financial statements.

- Disclosure initiative (Amendments to IAS 7 *Statement of Cash Flows*)
- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12 *Income Taxes*)

4 Net interest income

	2016 AMD'000	2015 AMD'000
Interest income		
Loans to customers	2,033,421	2,328,612
Available-for-sale financial assets	1,077,028	440,691
Amounts due from banks	227,831	385,487
Amounts receivable under reverse repurchase agreements	186,415	-
Other	1,656	14,585
	3,526,351	**3,169,375**
Interest expense		
Current accounts and deposits from customers	1,571,909	1,773,000
Subordinated loans from Parent	297,545	151,300
Other borrowed funds	173,680	207,498
Deposits and balances from banks	53,742	185,080
Amounts payable under repurchase agreements	10,120	352,198
Other	56,177	18,126
	2,163,173	**2,687,202**
Net interest income	**1,363,178**	**482,173**

5 Fee and commission income

	2016 AMD'000	2015 AMD'000
Account servicing	26,916	27,067
Credit card maintenance	23,474	26,505
Remittances	15,644	16,970
Cash entry and withdrawal	12,214	21,414
Issuance of guarantees and letter of credits	6,293	3,265
Custodial services	4,108	4,200
Other	5,210	1,626
	93,859	**101,047**

6 Fee and commission expense

	2016 AMD'000	2015 AMD'000
Plastic card services	29,082	35,874
Remittances	6,033	8,054
Inquiries	3,300	3,209
Other	1,935	4,808
	40,350	**51,945**

7 Net foreign exchange gain

	2016 AMD'000	2015 AMD'000
Gain on spot transactions	50,887	59,303
Gain from revaluation of financial assets and liabilities	24,987	8,816
	75,874	**68,119**

8 Other operating expense, net

	2016 AMD'000	2015 AMD'000
Fines and penalties received	33,206	36,028
Payments to State Deposit Insurance Fund	(51,265)	(54,386)
Loss from disposal of property and equipment	(19,717)	(46,679)
Payments to Financial Ombudsman	(4,083)	(5,308)
Fines and penalties paid	(606)	(17,453)
Other expenses	(23,094)	(18,433)
	(65,559)	**(106,231)**

9 Impairment losses

	2016 AMD'000	2015 AMD'000
Loans to customers	675,251	1,344,613
Losses/(recoveries) from tther assets	4,731	(9,098)
	679,982	**1,335,515**

Impairment losses are disclosed in notes 16 and 18.

10 Other general administrative expenses

	2016 AMD'000	2015 AMD'000
Depreciation and amortisation	83,616	94,326
Maintenance of computer software	53,583	51,839
Professional services	40,015	24,986
Repairs and maintenance	36,348	42,741
Insurance	34,337	35,009
Taxes other than on income	33,754	34,301
Advertising and marketing	30,521	54,960
Security	28,821	32,685
Communications and information services	18,698	19,459
Maintenance of cars	10,532	14,957
Operating lease expense	9,852	13,252
Legal services	9,766	114,837
Travel expenses	8,688	2,630
Membership expenses	7,500	7,536
Office supplies	6,807	9,466
Trainings	644	2,820
Other	22,073	23,095
	435,555	**578,899**

11 Income tax expense

	2016 AMD'000	2015 AMD'000
Current tax expense		
Current year income tax	-	(7,324)
	-	**(7,324)**
Deferred tax expense		
Origination and reversal of temporary differences	-	(18,423)
Total income tax expense	**-**	**(25,747)**

In 2016 applicable tax rate for current and deferred tax is 20% (2015: 20%).

Reconciliation of effective tax rate

	2016 AMD'000	%	2015 AMD'000	%
Loss before tax	(156,487)		(2,125,125)	
Tax at the applicable tax rate	31,297	(20%)	425,025	(20%)
Non-deductible expenses	(15,848)	10%	(91,755)	4%
Utilisation of tax losses in the current year/(current year losses) for which no deferred tax asset is recognised	24,916	(16%)	(22,050)	1%
Derecognition of previously recognised tax losses	-	-	(118,131)	6%
Unrecognised temporary differences	(40,365)	26%	(218,836)	10%
	-	**-**	**(25,747)**	**1%**

(a) Recognised deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabiliies as at 31 December 2016 and net deferred tax assets as at 31 December 2015. Movements in temporary differences for the year ended 31 December 2016 and 2015 are presented as follows:

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

31 December 2015 AMD'000	**1 January 2015**	**Recognized in profit or loss**	**Recognized in other comprehensive loss**	**31 December 2015**
Cash and cash equivalents	(867)	867	-	-
Available-for-sale financial assets	(28,972)	1	47,025	18,054
Amounts due from banks	(18,670)	18,670	-	-
Loans to customers	(82,409)	82,409	-	-
Property and equipment	2,352	(2,352)	-	-
Other assets	1,302	(1,302)	-	-
Tax losses	118,131	(118,131)	-	-
Other liabilities	(1,415)	1,415	-	-
	(10,548)	**(18,423)**	**47,025**	**18,054**

(b) Unrecognised deferred tax assets

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

	2016 AMD'000	2015 AMD'000
Temporary differences	259,201	218,836
Tax losses	335,237	360,153
	594,438	**578,989**

The tax losses of AMD 1,571,078 thousand and AMD 105,109 thousand expire in 2019 and 2020, respectively. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Bank can utilise the benefits therefrom.

(c) Income tax recognized in other comprehensive income/(loss)

The tax effects relating to components of other comprehensive income/(loss) for the year ended 31 December 2016 and 2015 comprise the following:

	2016			2015		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	1,157,194	(231,439)	925,755	(229,200)	45,840	(183,360)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(5,927)	1,185	(4,742)
Other comprehensive income/(loss)	**1,157,194**	**(231,439)**	**925,755**	**(235,127)**	**47,025**	**(188,102)**

12 Cash and cash equivalents

	2016 AMD'000	2015 AMD'000
Cash on hand	337,659	411,668
Nostro accounts with the CBA, including obligatory reserves	13,332,929	8,997,423
Nostro accounts with other banks		
- OECD banks	97,601	921,105
- Other foreign banks	318,957	192,627
- Largest 10 Armenian banks	1,905	1,901
- Small and medium size Armenian banks	87	87
Total nostro accounts with other banks	**418,550**	**1,115,720**
Total cash and cash equivalents as shown in the statement of cash flows	**14,089,138**	**10,524,811**
Accrued interest	3	12
Total cash and cash equivalents as shown in the statement of financial position	**14,089,141**	**10,524,823**

No cash and cash equivalents are impaired or past due.

Nostro accounts with the CBA

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

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

As at 31 December 2016 included in nostro accounts with the CBA, is the amount of unaudited obligatory reserve of AMD 4,002,108 thousand for amounts attracted in Armenian drams and foreign currency (2015: AMD 5,138,528 thousand for amounts attracted in Armenian drams and foreign currency).

Concentration of cash and cash equivalents

As at 31 December 2016 the Bank has no bank (31 December 2015: one bank), excluding balances with the CBA, whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2015 was AMD 825,323 thousand.

13 Available-for-sale financial assets

	2016 AMD'000	2015 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	21,313,527	4,056,428
- Securities of international financial institutions	-	48,845
- Corporate bonds issued by largest 10 Armenian bank	203,564	-
	21,517,091	**4,105,273**
Equity instruments		
- Corporate shares	13,160	13,160
	21,530,251	**4,118,433**

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

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

Name	Country of incorporation	Main activity	% Controlled 2016	% Controlled 2015	2016 AMD'000	2015 AMD'000
ArCa	Republic of Armenia	Payment system	1.25%	1.25%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	**13,160**

Investments without a determinable fair value

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

14 Amounts receivable under reverse repurchase agreements

	2016 AMD'000	2015 AMD'000
Amounts receivable from small and medium size Armenian banks	**1,901,225**	**-**

Collateral

As at 31 December 2016 amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of AMD 1,980,896 thousand.

15 Amounts due from banks

	2016 AMD'000	2015 AMD'000
Credit card settlement deposit with the CBA	142,500	142,500
Derivative instruments (currency swap)	-	1,077
Loans and deposits		
- Largest 10 Armenian banks	1,459,902	1,455,518
- Small and medium size Armenian banks	485,276	2,916,100
- OECD banks	65,087	65,062
Total loans and deposits	**2,010,265**	**4,436,680**
Total amounts due from banks	**2,152,765**	**4,580,257**

No amounts due from banks are impaired or past due.

As at 31 December 2016 included in loans and deposits with OECD banks is AMD 65,087 thousand (31 December 2015: AMD 65,062 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

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.

Concentration of amounts due from banks

As at 31 December 2016 the Bank has no bank (31 December 2015: three banks), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2015 is AMD 4,371,618 thousand.

16 Loans to customers

	2016 AMD'000	2015 AMD'000
Loans to corporate customers		
Loans to large corporates	13,305,814	8,381,621
Loans to small and medium size companies	1,374,146	1,419,034
Total loans to corporate customers	**14,679,960**	**9,800,655**
Loans to retail customers		
Mortgage loans	9,311,640	9,089,860
Consumer loans secured by real estate	1,287,102	1,412,793
Small business loans	342,859	551,095
Auto loans	307,083	469,982
Credit card loans	218,992	260,276
Consumer loans with salary domiciliation	184,972	210,037
Other	49,008	28,652
Total loans to retail customers	**11,701,656**	**12,022,695**
Gross loans to customers	**26,381,616**	**21,823,350**
Impairment allowance	(4,226,001)	(3,868,400)
Net loans to customers	**22,155,615**	**17,954,950**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	3,548,226	320,174	3,868,400
Net charge	504,985	170,266	675,251
Write-offs	(150,407)	(167,243)	(317,650)
Balance at the end of the year	**3,902,804**	**323,197**	**4,226,001**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 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	2,392,213	176,598	2,568,811
Net charge	1,156,013	188,600	1,344,613
Write-offs	-	(45,024)	(45,024)
Balance at the end of the year	**3,548,226**	**320,174**	**3,868,400**

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	8,211,869	(94,436)	8,117,433	1.2%
Impaired loans:				
- overdue more than 1 year	5,093,945	(3,721,623)	1,372,322	73.1%
Total impaired loans	5,093,945	(3,721,623)	1,372,322	73.1%
Total loans to large corporates	**13,305,814**	**(3,816,059)**	**9,489,755**	**28.7%**
Loans to small and medium size companies				
Loans without individual signs of impairment	948,093	(10,903)	937,190	1.2%
Impaired loans:				
-not overdue	64,034	(1,281)	62,753	2.0%
-overdue more than 1 year	362,019	(74,561)	287,458	20.6%
Total impaired loans	426,053	(75,842)	350,211	17.8%
Total loans to small and medium size companies	**1,374,146**	**(86,745)**	**1,287,401**	**6.3%**
Total loans to corporate customers	**14,679,960**	**(3,902,804)**	**10,777,156**	**26.6%**
Loans to retail customers				
Mortgage loans				
-not overdue	8,791,096	(17,582)	8,773,514	0.2%
- not overdue, but impaired	73,999	(16,280)	57,719	22.0%
- overdue less than 30 days	19,543	(8,599)	10,944	44.0%
- overdue 31-90 days	69,705	(30,670)	39,035	44.0%
- overdue 91-180 days	52,259	(22,994)	29,265	44.0%
- overdue 181-270 days	155,328	(68,345)	86,983	44.0%
- overdue more than 271 days	149,710	(65,872)	83,838	44.0%
Total mortgage loans	**9,311,640**	**(230,342)**	**9,081,298**	**2.5%**
Consumer loans secured by real estate				
- not overdue	1,169,866	(2,340)	1,167,526	0.2%
- not overdue, but impaired	18,409	(4,050)	14,359	22.0%
- overdue less than 30 days	11,127	(4,896)	6,231	44.0%
- overdue 31-90 days	15,618	(6,872)	8,746	44.0%
- overdue 91-180 days	23,337	(10,268)	13,069	44.0%
- overdue 181-270 days	6,118	(2,692)	3,426	44.0%
- overdue more than 271 days	42,627	(18,756)	23,871	44.0%
Total consumer loans secured by real estate	**1,287,102**	**(49,874)**	**1,237,228**	**3.9%**
Small business loans				
- not overdue	278,204	(2,782)	275,422	1.0%
- not overdue, but impaired	27,163	(8,149)	19,014	30.0%
- overdue 31-90 days	6,181	(3,709)	2,472	60.0%
- overdue 91-180 days	6,574	(3,944)	2,630	60.0%
- overdue 181-270 days	8,130	(4,878)	3,252	60.0%
- overdue more than 271 days	16,607	(9,964)	6,643	60.0%
Total small business loans	**342,859**	**(33,426)**	**309,433**	**9.7%**
Auto loans				
- not overdue	287,120	(574)	286,546	0.2%
- not overdue, but impaired	1,992	(199)	1,793	10.0%
- overdue less than 30 days	8,526	(1,705)	6,821	20.0%
- overdue 31-90 days	9,445	(1,889)	7,556	20.0%
Total auto loans	**307,083**	**(4,367)**	**302,716**	**1.4%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Credit card loans				
- not overdue	216,596	(1,083)	215,513	0.5%
- not overdue, but impaired	2,396	(719)	1,677	30.0%
Total credit card loans	**218,992**	**(1,802)**	**217,190**	**0.8%**
Consumer loans with salary domiciliation				
- not overdue	180,836	(904)	179,932	0.5%
- overdue less than 30 days	401	(241)	160	60.0%
- overdue 31-90 days	744	(446)	298	60.0%
- overdue 91-180 days	785	(471)	314	60.0%
- overdue 181-270 days	2,206	(1,324)	882	60.0%
Total consumer loans with salary domiciliation	**184,972**	**(3,386)**	**181,586**	**1.8%**
Other retail loans				
- not overdue	49,008	-	49,008	0.0%
Total other retail loans	**49,008**	**-**	**49,008**	**0.0%**
Total loans to retail customers	**11,701,656**	**(323,197)**	**11,378,459**	**2.8%**
Total loans to customers	**26,381,616**	**(4,226,001)**	**22,155,615**	**16.0%**

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	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	3,036,666	(34,922)	3,001,744	1.2%
Impaired loans:				
- overdue more than 90 days and less than 1 year	919,969	(200,830)	719,139	21.8%
- overdue more than 1 year	4,424,986	(3,218,779)	1,206,207	72.7%
Total impaired loans	5,344,955	(3,419,609)	1,925,346	64.0%
Total loans to large corporates	**8,381,621**	**(3,454,531)**	**4,927,090**	**41.2%**
Loans to small and medium size companies				
Loans without individual signs of impairment	980,480	(11,276)	969,204	1.2%
Impaired loans:				
-not overdue	74,133	(1,483)	72,650	2.0%
- overdue more than 90 days and less than 1 year	139,078	(2,782)	136,296	2.0%
- overdue more than 1 year	225,343	(78,154)	147,189	34.7%
Total impaired loans	438,554	(82,419)	356,135	18.8%
Total loans to small and medium size companies	**1,419,034**	**(93,695)**	**1,325,339**	**6.6%**
Total loans to corporate customers	**9,800,655**	**(3,548,226)**	**6,252,429**	**36.2%**
Loans to retail customers				
Mortgage loans				
-not overdue	8,531,263	(17,063)	8,514,200	0.2%
- not overdue, but impaired	186,414	(37,283)	149,131	20.0%
- overdue less than 30 days	13,530	(5,412)	8,118	40.0%
- overdue 31-90 days	142,495	(56,998)	85,497	40.0%
- overdue 91-180 days	107,449	(42,980)	64,469	40.0%
- overdue 181-270 days	11,443	(4,577)	6,866	40.0%
- overdue more than 271 days	97,266	(38,906)	58,360	40.0%
Total mortgage loans	**9,089,860**	**(203,219)**	**8,886,641**	**2.2%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Consumer loans secured by real estate				
- not overdue	1,317,798	(2,636)	1,315,162	0.2%
- not overdue, but impaired	5,496	(1,539)	3,957	28.0%
- overdue less than 30 days	5,475	(3,066)	2,409	56.0%
- overdue 31-90 days	29,238	(16,373)	12,865	56.0%
- overdue 91-180 days	29,686	(16,624)	13,062	56.0%
- overdue 181-270 days	3,893	(2,180)	1,713	56.0%
- overdue more than 271 days	21,207	(11,876)	9,331	56.0%
Total consumer loans secured by real estate	**1,412,793**	**(54,294)**	**1,358,499**	**3.8%**
Small business loans				
- not overdue	481,725	(963)	480,762	0.2%
- not overdue, but impaired	3,024	(756)	2,268	25.0%
- overdue less than 30 days	14,894	(7,447)	7,447	50.0%
- overdue 31-90 days	4,062	(2,031)	2,031	50.0%
- overdue 91-180 days	4,882	(2,441)	2,441	50.0%
- overdue 181-270 days	7,354	(3,677)	3,677	50.0%
- overdue more than 271 days	35,154	(17,577)	17,577	50.0%
Total small business loans	**551,095**	**(34,892)**	**516,203**	**6.3%**
Auto loans				
- not overdue	431,105	(862)	430,243	0.2%
- not overdue, but impaired	2,046	(501)	1,545	24.5%
- overdue less than 30 days	11,478	(5,624)	5,854	49.0%
- overdue 31-90 days	6,871	(3,367)	3,504	49.0%
- overdue 181-270 days	9,794	(4,799)	4,995	49.0%
- overdue more than 271 days	8,688	(4,257)	4,431	49.0%
Total auto loans	**469,982**	**(19,410)**	**450,572**	**4.1%**
Credit card loans				
- not overdue	253,144	(506)	252,638	0.2%
- not overdue, but impaired	6,932	(3,327)	3,605	48.0%
- overdue 181-270 days	200	(96)	104	48.0%
Total credit card loans	**260,276**	**(3,929)**	**256,347**	**1.5%**
Consumer loans with salary domiciliation				
- not overdue	200,170	(400)	199,770	0.2%
- not overdue, but impaired	2,944	(707)	2,237	24.0%
- overdue less than 30 days	1,952	(937)	1,015	48.0%
- overdue 31-90 days	1,045	(502)	543	48.0%
- overdue 91-180 days	3,398	(1,631)	1,767	48.0%
- overdue 181-270 days	528	(253)	275	48.0%
Total consumer loans with salary domiciliation	**210,037**	**(4,430)**	**205,607**	**2.1%**
Other retail loans				
- not overdue	28,652	-	28,652	0.0%
Total other retail loans	**28,652**	**-**	**28,652**	**0.0%**
Total loans to retail customers	**12,022,695**	**(320,174)**	**11,702,521**	**2.7%**
Total loans to customers	**21,823,350**	**(3,868,400)**	**17,954,950**	**17.7%**

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

(i) Loans to corporate customers

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

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

- for non-impaired loans the Bank creates 1.2% on commercial non-impaired loans considering the economic environment and market loss experience.
- for impaired loans an average discount of 40% to the originally appraised value is applied if the property pledged is sold and a delay from 12 to 48 months in obtaining proceeds from the foreclosure of collateral is assumed.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2016 would be AMD 107,772 thousand lower/higher (31 December 2015: AMD 62,524 thousand lower/higher).

The impairment allowance on impaired loans to corporate customers would have been AMD 220,895 thousand higher (31 December 2015: AMD 320,645 thousand) if the market value of the collateral have been assessed 15% lower as at the reporting date.

During the year ended 31 December 2016 the Bank renegotiated commercial loans of AMD 14,222 thousand, that would otherwise be past due or impaired (31 December 2015: AMD 64,020 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

(ii) Loans to retail customers

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

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

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

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

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2016 would be AMD 341,354 thousand lower/higher (31 December 2015: AMD 351,076 thousand lower/higher).

(c) Analysis of collateral

(i) Loans to corporate customers

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

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

31 December 2016 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Bank account turnover	4,962,951	-	4,962,951
Real estate	4,091,672	-	4,091,672
Total loans without individual signs of impairment	**9,054,623**	**-**	**9,054,623**
Overdue or impaired loans			
Real estate	1,722,533	1,722,533	-
Total overdue or impaired loans	1,722,533	1,722,533	-
Total loans to corporate customers	**10,777,156**	**1,722,533**	**9,054,623**

31 December 2015 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Bank account turnover	1,148,473	-	1,148,473
Real estate	2,822,475	-	2,822,475
Total loans without individual signs of impairment	**3,970,948**	**-**	**3,970,948**
Overdue or impaired loans			
Real estate	2,281,481	2,061,644	219,837
Total overdue or impaired loans	2,281,481	2,061,644	219,837
Total loans to corporate customers	**6,252,429**	**2,061,644**	**4,190,785**

The tables above excludes overcollateralisation.

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

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

(ii) Loans to retail customers

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

(iii) Repossessed collateral

During the year ended 31 December 2015 the Bank has obtained assets with fair value of AMD 1,568,310 by taking possession of real estate collateral of loans to customers. During the year ended 31 December 2016 no collateral of loans to customers has been repossessed.

Part of the repossessed collateral in the amount of AMD 90,340 thousand was sold during the year ended 31 December 2016 (31 December 2015: AMD 460,732 thousand).

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

(d) Assets under lien

As at 31 December 2016, loans to customers with a gross value of AMD 1,184,681 thousand (31 December 2015: AMD 1,201,634 thousand) serve as collateral for deposits and balances from banks and other borrowed funds (see notes 19 and 21).

(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:

	2016 AMD'000	**2015 AMD'000**
Energy and gas	5,020,689	1,161,823
Processing of agricultural produce	3,341,672	1,833,047
Trade	3,002,178	3,265,776
Transport	1,659,758	1,663,834
Manufacturing	1,522,662	1,806,886
Public catering and other services	133,001	69,289
Loans to retail customers	11,701,656	12,022,695
	26,381,616	**21,823,350**
Impairment allowance	(4,226,001)	(3,868,400)
	22,155,615	**17,954,950**

(f) Significant credit exposures

As at 31 December 2016 the Bank has one borrower or groups of connected borrowers (31 December 2015: three), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 December 2016 is AMD 4,962,951 thousand (31 December 2015: AMD 2,607,166 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 25 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

17 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 2016	945,079	295,697	314,270	53,700	22,769	163,957	1,795,472
Additions	2,116	2,182	5,442	-	-	419	10,159
Disposals	-	(21,215)	(28,057)	(12,861)	(22,769)	-	(84,902)
Balance at 31 December 2016	**947,195**	**276,664**	**291,655**	**40,839**	**-**	**164,376**	**1,720,729**
Depreciation and amortization							
Balance at 1 January 2016	(163,189)	(226,245)	(221,295)	(53,700)	(21,926)	(94,542)	(780,897)
Depreciation and amortization for the year	(19,954)	(29,412)	(32,280)	-	(161)	(1,809)	(83,616)
Disposals	-	19,922	23,750	12,861	22,087	-	78,620
Balance at 31 December 2016	**(183,143)**	**(235,735)**	**(229,825)**	**(40,839)**	**-**	**(96,351)**	**(785,893)**
Carrying amount							
Balance at 31 December 2016	**764,052**	**40,929**	**61,830**	**-**	**-**	**68,025**	**934,836**
Cost							
Balance at 1 January 2015	945,079	312,582	258,623	53,700	22,769	164,852	1,757,605
Additions	-	17,507	60,723	-	-	-	78,230
Disposals	-	(34,392)	(5,076)	-	-	(895)	(40,363)
Balance at 31 December 2015	**945,079**	**295,697**	**314,270**	**53,700**	**22,769**	**163,957**	**1,795,472**
Depreciation and amortization							
Balance at 1 January 2015	(143,241)	(222,201)	(194,082)	(53,700)	(19,796)	(92,784)	(725,804)
Depreciation and amortization for the year	(19,948)	(37,883)	(31,727)	-	(2,130)	(2,638)	(94,326)
Disposals	-	33,839	4,514	-	-	880	39,233
Balance at 31 December 2015	**(163,189)**	**(226,245)**	**(221,295)**	**(53,700)**	**(21,926)**	**(94,542)**	**(780,897)**
Carrying amount							
Balance at 31 December 2015	**781,890**	**69,452**	**92,975**	**-**	**843**	**69,415**	**1,014,575**

18 Other assets

	2016 AMD'000	2015 AMD'000
Receivables under money transfer and clearing systems	1,982	2,584
Other receivables	2,576	3,716
Total other financial assets	**4,558**	**6,300**
Repossessed assets - land and buildings	1,298,834	1,387,974
Income tax prepayments	63,756	63,756
Other prepayments	36,178	46,386
Other	23,050	22,794
Total other non-financial assets	**1,421,818**	**1,520,910**
Total other assets	**1,426,376**	**1,527,210**

During the year ended 31 December 2016 receivables in the amount of AMD 4,731 thousand were impaired and written off (2015: net recovery of AMD 9,098 thousand).

Management believes that the carrying amount of repossessed assets approximately equals their fair value less costs to sell as at 31 December 2016 and 31 December 2015.

19 Deposits and balances from banks

	2016 AMD'000	2015 AMD'000
Loans and term deposits	716,220	662,507
Vostro accounts	-	4
	716,220	**662,511**

As at 31 December 2016 the Bank has no bank, whose balances exceed 10% of equity (31 December 2015: one bank). The gross value of these balances as at 31 December 2015 was AMD 662,507 thousand.

20 Current accounts and deposits from customers

	2016 AMD'000	2015 AMD'000
Current accounts and demand deposits		
- Retail	3,413,707	3,663,925
- Corporate	1,091,100	607,908
Term deposits		
- Retail	20,273,375	22,247,750
- Corporate	4,562,960	2,052,417
	29,341,142	**28,572,000**

As at 31 December 2016 the Bank maintained customer deposit balances of AMD 86,641 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2015: AMD 60,905 thousand).

As at 31 December 2016 the Bank has no customer (31 December 2015: six customers), whose balances exceed 10% of equity. These balances as at 31 December 2015 are AMD 8,435,709 thousand.

21 Other borrowed funds

	2016 AMD'000	2015 AMD'000
Loans from National Mortgage Company	1,115,217	1,090,976
Loan from International Financial Corporation (IFC)	936,856	1,310,453
	2,052,073	**2,401,429**

Breach of covenants

As at 31 December 2016 and 2015 the Bank breached some of its maximum covenant thresholds under the loan agreement with IFC. As of 31 December 2016 and 2015 the management did not obtain a waiver, so that these loans were payable on demand as at 31 December 2016 and 2015. Accordingly, the loans from IFC of AMD 936,856 thousand (31 December 2015: loans from IFC of AMD 1,310,453 thousand) are classified as being due on demand and less than one month in the interest rate gap, liquidity and maturity tables in note 25.

22 Subordinated loans from Parent

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

23 Other liabilities

	2016 AMD'000	2015 AMD'000
Salary and similar payables	62,201	49,132
Payables to suppliers	10,800	14,895
Other financial liabilities	31,959	50,072
Total other financial liabilities	**104,960**	**114,099**
Other taxes payable	5,133	90,608
Deferred income	3,380	3,754
Other non-financial liabilities	7,533	7,751
Total other non-financial liabilities	**16,046**	**102,113**
Total other liabilities	**121,006**	**216,212**

24 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 238,251 ordinary shares (31 December 2015: 81,251). 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. During the year ended 31 December 2016, 157,000 shares were issued at nominal value resulting in increase of share capital by AMD 15,700,000 thousand.

(b) Nature and purpose of reserves

Revaluation reserve for available-for-sale financial assets

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

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date no reserves are available for distribution (2015: nil).

25 Risk management

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

(a) Risk management policies and procedures

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.

(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	Carrying amount
31 December 2016						
Interest-bearing assets						
Cash and cash equivalents	416,785	-	-	-	-	416,785
Available-for-sale financial assets	909,145	3,573,959	199,554	10,433,561	6,400,872	21,517,091
Amounts receivable under reverse repurchase agreements	1,901,225	-	-	-	-	1,901,225
Amounts due from banks	1,461,241	483,937	-	-	-	1,945,178
Loans to customers	886,063	609,770	1,052,619	13,535,375	6,071,788	22,155,615
	5,574,459	**4,667,666**	**1,252,173**	**23,968,936**	**12,472,660**	**47,935,894**
Interest-bearing liabilities						
Deposits and balances from banks	27,279	339	697	687,905	-	716,220
Current accounts and deposits from customers	8,952,218	5,091,681	11,835,005	2,135,753	-	28,014,657
Other borrowed funds	982,779	26,222	56,110	720,688	266,274	2,052,073
Subordinated loans from Parent	129,851	-	-	-	9,738,925	9,868,776
	10,092,127	**5,118,242**	**11,891,812**	**3,544,346**	**10,005,199**	**40,651,726**
Interest rate gap	**(4,517,668)**	**(450,576)**	**(10,639,639)**	**20,424,590**	**(2,467,461)**	**7,284,168**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2015						
Interest-bearing assets						
Cash and cash equivalents	1,113,970	-	-	-	-	1,113,970
Available-for-sale financial assets	42,275	850,596	48,065	3,164,337	-	4,105,273
Amounts due from banks	3,887,876	483,742	-	-	-	4,371,618
Loans to customers	1,062,234	863,507	1,466,014	8,547,741	6,015,454	17,954,950
	6,106,355	**2,197,845**	**1,514,079**	**11,712,078**	**6,015,454**	**27,545,811**
Interest-bearing liabilities						
Deposits and balances from banks	31,362	17,711	28,467	584,967	-	662,507
Current accounts and deposits from customers	11,554,701	6,544,610	8,209,132	1,242,665	-	27,551,108
Other borrowed funds	1,354,098	18,715	41,852	644,997	341,767	2,401,429
Subordinated loans from Parent	60,056	-	-	-	2,417,755	2,477,811
	13,000,217	**6,581,036**	**8,279,451**	**2,472,629**	**2,759,522**	**33,092,855**
Interest rate gap	**(6,893,862)**	**(4,383,191)**	**(6,765,372)**	**9,239,449**	**3,255,932**	**(5,547,044)**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 31 December 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %			**2015 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Available-for-sale financial assets	11.8%	6.4%	-	13.9%	6.4%	-
Amounts receivable under reverse repurchase agreements	6.0%	-	-	-	-	-
Amounts due from banks	-	4.2%	-	-	6.6%	-
Loans to customers	14.0%	6.3%	8.2%	14.1%	6.3%	4.4%
Interest bearing liabilities						
Deposits and balances from banks	8.1%	-	-	8.2%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.7%	1.5%	0.6%	2.5%	1.5%	0.6%
- Term deposits	13.2%	5.0%	2.8%	13.2%	5.6%	2.9%
Other borrowed funds	9.1%	6.2%	-	9.0%	6.2%	-
Subordinated loans fron parent	-	6.5%	6.5%	-	9.4%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities.

An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015, respectively, as follows:

	2016 AMD'000	**2015 AMD'000**
100 bp parallel fall	51,480	71,199
100 bp parallel rise	(51,480)	(71,199)

An analysis of sensitivity of net profit or loss and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing at 31 December 2016 and 31 December 2015 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	2016		**2015**	
	Net profit or loss AMD'000	**Equity AMD'000**	**Net profit or loss AMD'000**	**Equity AMD'000**
100 bp parallel fall	-	645,220	-	128,828
100 bp parallel rise	-	(645,220)	-	(128,828)

(ii) Currency risk

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

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

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
Assets					
Cash and cash equivalents	5,762,189	4,083,773	646,333	32,528	10,524,823
Available-for-sale financial assets	2,694,904	1,423,529	-	-	4,118,433
Amounts due from banks	143,577	4,436,680	-	-	4,580,257
Loans to customers	5,995,776	11,843,250	115,924	-	17,954,950
Other financial assets	3,791	2,409	100	-	6,300
Total	**14,600,237**	**21,789,641**	**762,357**	**32,528**	**37,184,763**
Liabilities					
Deposits and balances from banks	662,511	-	-	-	662,511
Current accounts and deposits from customers	4,838,189	22,994,548	716,188	23,075	28,572,000
Other borrowed funds	1,075,145	1,326,284	-	-	2,401,429
Subordinated loans from Parent	-	2,477,811	-	-	2,477,811
Other financial liabilities	104,544	9,292	263	-	114,099
Total	**6,680,389**	**26,807,935**	**716,451**	**23,075**	**34,227,850**
Net position	**7,919,848**	**(5,018,294)**	**45,906**	**9,453**	**2,956,913**
The effect of derivatives held for risk management	**(1,667,861)**	**1,668,938**	**-**	**-**	**1,077**
Net position after derivatives held for risk management purposes	**6,251,987**	**(3,349,356)**	**45,906**	**9,453**	**2,957,990**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2016 and 31 December 2015 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.

	2016 AMD'000	2015 AMD'000
10% appreciation of USD against AMD	(173,209)	(334,936)
10% appreciation of EUR against AMD	(988)	4,591

A strengthening of the AMD against the above currencies at 31 December 2016 and 31 December 2015 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:

	2016 AMD'000	2015 AMD'000
Assets		
Cash and cash equivalents	14,089,141	10,524,823
Available-for-sale financial assets	21,530,251	4,118,433
Amounts receivable under reverse repurchase agreements	1,901,225	-
Amounts due from banks	2,152,765	4,580,257
Loans to customers	22,155,615	17,954,950
Other financial assets	4,558	6,300
Total maximum exposure	**61,833,555**	**37,184,763**

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 16.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 27.

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 transitions upon the counterparty's failure to post collateral.

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

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

AMD'000

Types of financial assets	Gross amounts of recognized financial assets	Gross amount of recognized financial liability offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts subject to offseting in case of bankruptcy Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	1,901,225	-	1,901,225	1,901,225	-
Total financial assets	**1,901,225**	**-**	**1,901,225**	**1,901,225**	**-**

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

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

The contractual maturity analysis for financial liabilities as at 31 December 2016 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2016							
Non-derivative liabilities							
Deposits and balances from banks	27,067	216	350	743	879,299	907,675	716,220
Current accounts and deposits from customers	5,805,708	4,517,377	5,210,017	12,531,828	2,421,273	30,486,203	29,341,142
Other borrowed funds	958,591	24,507	27,155	60,032	1,350,743	2,421,028	2,052,073
Subordinated loans from Parent	-	129,851	-	-	15,691,932	15,821,783	9,868,776
Other financial liabilities	102,560	2,400	-	-	-	104,960	104,960
Total	**6,893,926**	**4,674,351**	**5,237,522**	**12,592,603**	**20,343,247**	**49,741,649**	**42,083,171**
Credit related commitments	**1,592,422**	**-**	**-**	**-**	**-**	**1,592,422**	**1,592,422**

The contractual maturity analysis for financial liabilities as at 31 December 2015 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 2015							
Non-derivative liabilities							
Deposits and balances from banks	27,666	3,783	18,274	30,379	785,393	865,495	662,511
Current accounts and deposits from customers	5,820,706	6,825,511	6,698,319	8,616,468	1,354,916	29,315,920	28,572,000
Other borrowed funds	1,334,417	19,916	19,390	44,823	1,382,666	2,801,212	2,401,429
Subordinated loans from Parent	-	60,056	-	-	4,529,383	4,589,439	2,477,811
Other financial liabilities	108,313	5,786	-	-	-	114,099	114,099
Total	**7,291,102**	**6,915,052**	**6,735,983**	**8,691,670**	**8,052,358**	**37,686,165**	**34,227,850**
Credit related commitments	**803,696**	**-**	**-**	**-**	**-**	**803,696**	**803,696**

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:

	2016 AMD'000	2015 AMD'000
Less than 1 month	1,129,685	1,128,960
From 1 to 3 months	2,820,466	6,411,544
From 3 to 12 months	13,878,896	12,914,229
More than 1 year	2,081,371	1,237,890
	19,910,418	**21,692,623**

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	14,089,141	-	-	-	-	-	-	14,089,141
Available-for-sale financial assets	-	909,145	3,773,513	10,433,561	6,400,872	13,160	-	21,530,251
Amounts receivable under reverse repurchase agreements	1,901,225	-	-	-	-	-	-	1,901,225
Amounts due from banks	1,461,240	-	483,937	-	-	207,588	-	2,152,765
Loans to customers	312,241	573,822	1,662,389	10,053,017	6,071,788	-	3,482,358	22,155,615
Property, equipment and intangible assets	-	-	-	-	-	934,836	-	934,836
Other assets	6,940	5,096	41,873	1,372,467	-	-	-	1,426,376
Total assets	**17,770,787**	**1,488,063**	**5,961,712**	**21,859,045**	**12,472,660**	**1,155,584**	**3,482,358**	**64,190,209**
Liabilities								
Deposits and balances from banks	27,067	212	1,036	687,905	-	-	-	716,220
Current accounts and deposits from customers	5,802,457	4,465,552	16,937,380	2,135,753	-	-	-	29,341,142
Other borrowed funds	958,564	24,215	82,332	720,688	266,274	-	-	2,052,073
Subordinated loans from Parent	-	129,851	-	-	9,738,925	-	-	9,868,776
Other liabilities	107,710	2,434	3,533	816	6,513	-	-	121,006
Deferred tax liabilities	-	-	-	-	-	213,385	-	213,385
Total liabilities	**6,895,798**	**4,622,264**	**17,024,281**	**3,545,162**	**10,011,712**	**213,385**	**-**	**42,312,602**
Net position	**10,874,989**	**(3,134,201)**	**(11,062,569)**	**18,313,883**	**2,460,948**	**942,199**	**3,482,358**	**21,877,607**

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2015:

	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	10,524,823	-	-	-	-	-	-	10,524,823
Available-for-sale financial assets	-	42,275	898,661	3,164,337	-	13,160	-	4,118,433
Amounts due from banks	4,467	3,884,486	483,742	-	-	207,562	-	4,580,257
Loans to customers	308,338	753,896	2,329,521	5,931,234	6,015,454	-	2,616,507	17,954,950
Property, equipment and intangible assets	-	-	-	-	-	1,014,575	-	1,014,575
Other assets	7,123	5,670	59,214	1,455,203	-	-	-	1,527,210
Deferred tax assets	-	-	-	-	-	18,054	-	18,054
Total assets	**10,844,751**	**4,686,327**	**3,771,138**	**10,550,774**	**6,015,454**	**1,253,351**	**2,616,507**	**39,738,302**
Liabilities								
Deposits and balances from banks	27,647	3,719	46,178	584,967	-	-	-	662,511
Current accounts and deposits from customers	5,816,029	6,752,568	14,760,738	1,242,665	-	-	-	28,572,000
Other borrowed funds	1,334,399	19,699	60,567	644,997	341,767	-	-	2,401,429
Subordinated loans from Parent	-	60,056	-	-	2,417,755	-	-	2,477,811
Other liabilities	198,938	5,820	3,907	816	6,731	-	-	216,212
Total liabilities	**7,377,013**	**6,841,862**	**14,871,390**	**2,473,445**	**2,766,253**	**-**	**-**	**34,329,963**
Net position	**3,467,738**	**(2,155,535)**	**(11,100,252)**	**8,077,329**	**3,249,201**	**1,253,351**	**2,616,507**	**5,408,339**

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported unaudited ratios of highly liquid assets to demand liabilities at the 31 December 2016 is 768.9% (31 December 2015: 314%).

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.

26 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, which are based on Basel Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2016, this minimum level is 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2016 and 31 December 2015.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December 2016 and 31 December 2015:

	2016 AMD'000 Unaudited	2015 AMD'000 Unaudited
Share capital	23,825,100	8,125,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Accumulated losses	(1,824,402)	(1,917,414)
Deductions	(1,530,682)	(920,954)
Total tier 1 capital	**20,778,457**	**5,595,173**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	853,545	(72,210)
Subordinated loans	9,738,063	2,418,750
Deduction of tier 2 capital as per CBA regulations	(202,379)	-
Total tier 2 capital	**10,389,229**	**2,346,540**
Total capital	**31,167,686**	**7,941,713**
Total risk weighted assets	**53,024,140**	**34,497,607**
Total capital expressed as a percentage of risk-weighted assets	**58.8%**	**23.0%**
Total tier 1 capital expressed as a percentage of risk-weighted assets	**39.2%**	**16.2%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

27 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.

	2016 AMD'000	**2015 AMD'000**
Contracted amount		
Loan and credit line commitments	1,417,605	620,769
Credit card commitments	147,426	141,286
Guarantees and letters of credit	27,391	41,641
	1,592,422	**803,696**

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

As at 31 December 2016 of these credit related commitments, AMD 1,279,053 thousand (31 December 2015: AMD 524,705 thousand) are to three customers (31 December 2015: five customers). This exposure represents a significant credit risk exposure to the Bank.

28 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

29 Related party transactions

(a) Control relationships

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

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

Total remuneration included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

	2016 AMD'000	2015 AMD'000
Short-term employee benefits	**117,559**	**288,788**

These amounts include cash and non-cash benefits in respect of the members of the Board of Directors and the Management Committee.

The outstanding balances and average effective interest rates as at 31 December 2016 and 31 December 2015 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	2016 AMD'000	Average effective interest rate, %	2015 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	184,816	10.5%	63,760	9.7%
Loan impairment allowance	(373)		(128)	
Deposits received	308,083	5.7%	212,496	5.6%

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 16 (c) (ii).

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the years ended 31 December 2016 and 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Profit or loss		
Interest income	10,494	10,020
Interest expense	(13,374)	(13,851)
Impairment (loss) / release	(245)	84

(c) Transactions with other related parties

Other related parties include the Parent company and its fellow subsidiaries. The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

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

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 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows:

	Parent company		Entities with significant influence over the Bank		Other subsidiaries of the parent company		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	75,211	-	-	-	84,474	-	159,685
- in EUR	88,708	-	-	-	11,307	-	100,015
- in other currencies	7,547	-	-	-	-	-	7,547
Liabilities							
Current accounts and deposits from customers							
- in USD	-	-	-	-	9	-	9
Subordinated loan from Parent							
- in USD	2,477,811	9.4%	-	-	-	-	2,477,811
Profit or loss							
Interest income	105	-	-	-	-	-	105
Interest expense	(274,436)	-	(6,019)	-	(21,614)	-	(302,069)
Fee income	10		-		-		10
Fee expense	(3,068)	-	-	-	(54)	-	(3,122)
Net other operating expenses	-	-	(195)	-	-	-	(195)
Professional services	(6,058)	-	-	-	-	-	(6,058)

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

30 Fair values of financial instruments

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

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

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale and AMD denominated loans to customers and term deposits from customers as at 31 December 2016 and 31 December 2015 approximate their carrying amounts. The fair value of unquoted equity securities available-for-sale with a carrying value of AMD 13,160 thousand (31 December 2015: AMD 13,160 thousand) could not be determined.

The fair values of loans to customers and current accounts and term deposits are lower than their carrying values of AMD 22,155,615 thousand (31 December 2015: AMD 17,954,950 thousand) and AMD 29,341,142 thousand (31 December 2015: AMD 28,572,000 thousand) by AMD 539,334 thousand (31 December 2015: AMD 260,967 thousand lower) and AMD 24,684 thousand (31 December 2015: AMD 124,205 thousand lower) respectively, as at 31 December 2016. The fair value measurements of loans to customers, current accounts and term deposits from customers are categorized into Level 2 respectively in the fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the interim condensed statement of financial position:

AMD'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
- Debt instruments	-	21,517,091	-	21,517,091

The table below analyses financial instruments measured at fair value at 31 December 2015 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	-	4,105,273	-	4,105,273

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.