Financial Statements and Independent Auditor's Report

“ARMBUSINESSBANK” Closed Joint Stock Company

31 December 2016

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Independent auditor's report

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To the Shareholder of "ARMBUSINESSBANK" Closed Joint Stock Company:

Opinion

We have audited the financial statements of "ARMBUSINESSBANK" Closed Joint Stock Company (the "Bank"), which comprise the statement of financial position as of December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Gagik Gyulbudaghyan
Managing Partner

Armen Hovhannisyan
Engagement Partner

April 13, 2017

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Interest and similar income	6	**29,843,923**	26,560,094
Interest and similar expense	6	**(21,869,138)**	(19,532,662)
Net interest income		**7,974,785**	7,027,432
Fee and commission income	7	**2,532,401**	2,346,183
Fee and commission expense	7	**(687,135)**	(676,735)
Net fee and commission income		**1,845,266**	1,669,448
Net trading income	8	**781,807**	1,494,738
Foreign currency translation net gain/(losses) of non-trading assets and liabilities		**358,657**	(219,683)
Net gains less losses on investments available for sale		**3,728**	785
Other income	9	**2,175,814**	1,504,848
Impairment charge	10	**(4,602,720)**	(3,919,814)
Staff costs	11	**(3,297,734)**	(3,048,924)
Depreciation of property and equipment	19	**(808,868)**	(762,019)
Amortization of intangible assets	20	**(179,631)**	(73,636)
Other expenses	12	**(2,960,373)**	(2,129,249)
Profit before income tax		**1,290,731**	1,543,926
Income tax expense	13	**(237,550)**	(300,148)
Profit for the year		**1,053,181**	1,243,778
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain/(losses) from changes in fair value of investments available-for-sale		**1,948,255**	(215,364)
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments		**(234,308)**	(19,082)
Income tax relating to items that will be reclassified		**(342,789)**	46,889
Other comprehensive income for the year, net of tax		**1,371,158**	(187,557)
Total comprehensive income for the year		**2,424,339**	1,056,221

The accompanying notes on pages 8 to 57 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Note	As of December 31, 2016	As of December 31, 2015
ASSETS			
Cash and cash equivalents	14	**63,215,155**	24,110,724
Amounts due from financial institutions	15	**8,532,277**	6,107,036
Derivative financial assets	16	**22,848**	6,360
Loans and advances to customers	17	**275,926,637**	217,937,837
Investments available for sale	18	**171,309**	1,733,061
Securities pledged under repurchase agreements	28	**35,667,112**	21,473,387
Prepaid income taxes		**163,641**	450,462
Property, plant and equipment	19	**9,256,996**	8,952,917
Intangible assets	20	**2,422,927**	2,017,080
Deferred tax assets	13	**-**	222,195
Repossessed assets	21	**4,522,347**	5,155,015
Other assets	22	**1,767,496**	1,974,466
TOTAL ASSETS		**401,668,745**	290,140,540
LIABILITIES AND EQUITY			
Liabilities			
Derivative financial liabilities	16	**42,456**	14,672
Amounts due to financial institutions	23	**82,827,456**	64,730,346
Financial liabilities held for trading	24	**21,489,072**	12,467,687
Amounts due to Government of the RA	25	**1,161,395**	3,145,135
Amounts due to customers	26	**260,121,062**	180,487,801
Deferred income tax liabilities	13	**66,944**	-
Other liabilities	27	**909,281**	673,699
Total liabilities		**366,617,666**	261,519,340
Equity			
Share capital	29	**31,374,560**	22,907,500
Statutory general reserve		**638,508**	576,319
Other reserves		**1,974,942**	603,784
Retained earnings		**1,063,069**	4,533,597
Total equity		**35,051,079**	28,621,200
TOTAL LIABILITIES AND EQUITY		**401,668,745**	290,140,540

The financial statements from pages 4 to 57 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on April 13, 2017.

Arsen Mikayelyan
Chairman of the Executive Board

Narine Sargsyan
Chief Accountant

The accompanying notes on pages 8 to 57 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2015	22,907,500	403,892	319,919	471,422	3,462,246	27,564,979
Distribution to reserve	-	172,427	-	-	(172,427)	-
Transactions with owners	-	172,427	-	-	(172,427)	-
Profit for the year	-	-	-	-	1,243,778	1,243,778
Other comprehensive income:						
Net unrealized losses from changes in fair value	-	-	(215,364)	-	-	(215,364)
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	-	-	(19,082)	-	-	(19,082)
Income tax relating to components of other comprehensive income	-	-	46,889	-	-	46,889
Total comprehensive income for the year	-	-	(187,557)	-	1,243,778	1,056,221
Balance as of December 31, 2015	**22,907,500**	**576,319**	**132,362**	**471,422**	**4,533,597**	**28,621,200**
Increase in share capital	**8,467,060**	**-**	**-**	**-**	**(4,461,520)**	**4,005,540**
Distribution to reserve	**-**	**62,189**	**-**	**-**	**(62,189)**	**-**
Transactions with owners	**8,467,060**	**62,189**	**-**	**-**	**(4,523,709)**	**4,005,540**
Profit for the year	**-**	**-**	**-**	**-**	**1,053,181**	**1,053,181**
Other comprehensive income:						
Net unrealized gain from changes in fair value	**-**	**-**	**1,948,255**	**-**	**-**	**1,948,255**
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	**-**	**-**	**(234,308)**	**-**	**-**	**(234,308)**
Income tax relating to components of other comprehensive income	**-**	**-**	**(342,789)**	**-**	**-**	**(342,789)**
Total comprehensive income for the year	**-**	**-**	**1,371,158**	**-**	**1,053,181**	**2,424,339**
Balance as of December 31, 2016	**31,374,560**	**638,508**	**1,503,520**	**471,422**	**1,063,069**	**35,051,079**

The accompanying notes on pages 8 to 57 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2016**	Year ended December 31, 2015
Cash flows from operating activities		
Profit before tax	**1,290,731**	1,543,926
Adjustments for		
Amortization and depreciation allowances	**988,499**	835,655
Income from sale of PPE	**(248)**	(17,535)
Impairment charge	**4,602,720**	3,919,814
Net loss /(gains) from changes in fair value of instruments held for trading	**95,907**	(117,782)
Interest receivable	**(6,729,472)**	(5,503,230)
Interest payable	**1,146,833**	665,371
Foreign currency translation net loss /(gains) of non-trading assets and liabilities	**(358,657)**	219,683
Cash flows from operating activities before changes in operating assets and liabilities	**1,036,313**	1,545,902
(Increase)/decrease in operating assets		
Amounts due from financial institutions	**(2,301,558)**	(3,445,332)
Derivative financial assets	**(112,395)**	646,552
Securities pledged under repurchase agreements	**(5,125,823)**	27,929
Loans and advances to customers	**(55,413,487)**	(18,528,365)
Repossessed assets	**632,668**	(209,691)
Other assets	**69,018**	(1,065,991)
Increase/(decrease) in operating liabilities		
Derivative financial liabilities	**27,784**	14,672
Amounts due to financial institutions	**17,042,192**	(2,822,621)
Financial liabilities held for trading	**-**	136,143
Amounts due to Government of the RA	**(1,975,489)**	(1,277,057)
Amounts due to customers	**78,557,200**	37,707,211
Other liabilities	**329,429**	(40,374)
Net cash flow from operating activities before income tax	**32,765,852**	12,688,978
Income tax paid	**(4,379)**	(1,357,578)
Net cash flow from operating activities	**32,761,473**	11,331,400
Cash flows from investing activities		
Sale/(purchase) of investment securities	**3,233,737**	(1,757,333)
Purchase of property and equipment	**(1,149,919)**	(617,396)
Purchase of intangible assets	**(585,478)**	(477,070)
Sale of property and equipment	**37,220**	47,379
Net cash from/(used) in investing activities	**1,535,560**	(2,804,420)
Cash flow from financing activities		
Issue of share capital	**4,005,540**	-
Loans received/(repayment) from financial institutions	**891,657**	(14,776,947)
Net cash from/(used in) financing activities	**4,897,197**	(14,776,947)
Net increase/(decrease) in cash and cash equivalents	**39,194,230**	(6,249,967)
Cash and cash equivalents at the beginning of the year	**24,110,724**	30,712,361
Exchange differences on cash and cash equivalents	**(89,799)**	(351,670)
Cash and cash equivalents at the end of the year (Note 14)	**63,215,155**	24,110,724
Supplementary information:		
Interest received	**23,114,451**	21,056,864
Interest paid	**(20,722,305)**	(18,867,291)

The accompanying notes on pages 8 to 57 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"ARMBUSINESSBANK" Closed Joint Stock Company (previous "Hayinvestbank" CJSC) (the "Bank") was incorporated in the Republic of Armenia in 1991. The Bank is regulated by the legislation of RA and conducts its business under license number 40, granted on 10 December 1991 by the Central Bank of Armenia (the "CBA").

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

The Bank accepts deposits from the public, extends credits, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank's main office and its 23 branches are located in Yerevan, 22 branches are located in different regions of Armenia and 7 branches are located in the Republic of Nagorno Karabakh.

The registered office of the Bank is located at: 48 Nalbandyan Street, Yerevan.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, excepting buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2016, did not have a material impact on the annual financial statements of the Bank.

- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Disclosure Initiative (Amendments to IAS 1)*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16and IAS 38)*
- *IFRS 14 Regulatory Deferral Accounts.*
- *Annual Improvements to IFRSs 2012–2014 Cycle.*

3.5 Standards and interpretations not yet applied by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

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

Amendments to IAS 12 *Income Taxes*

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

These amendments clarify the following aspects:

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

- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Bank's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Bank's management have not yet assessed the impact of IFRS 16 on these financial statements.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the statement of profit and loss and other comprehensive income using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established. According to the Tax Legislation of Republic of Armenia dividend income is non-taxable.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognized in the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

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

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

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

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

4.6 Amounts due from financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories:

- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial instruments.

The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial assets
Assets available for sale represent debt and equity assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss and other comprehensive income. However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

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

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Impairment allowances of financial assets have been established in the financial statements on the basis of existing economic conditions. Bank is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans
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. 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 effective interest rate.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognized in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.11 Leases

Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

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 in other operating expenses.

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation, with the exception of buildings which are recorded at revalued amount. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at historical cost. It has unlimited useful life and thus is not depreciated.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	30	3.33
Computers and communication means	3	33.3
ATMs	10	10
Vehicles	5	20
Office equipment	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives from 1 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

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

4.14 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.15 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.16 Borrowings

Borrowings, which include amounts due to RA government, Central bank, other financial institutions and customers, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.17 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Following initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.19 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

This reserve records fair value changes in available-for-sale-investments.

4.20 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 32).

Classification of investment securities

Securities owned by the Bank comprise Armenian state bonds, shares of resident and non-resident institutions. Upon initial recognition, the Bank designates securities as available-for-sale financial assets recognition of changes in fair value through equity.

Useful Life of PPE

Useful life evaluation of PPE is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Bank expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Derivative instruments

The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives.

Non-current Assets Held for Sale and Discontinued Operations

According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. For of the valuation of those assets, the Bank has used the services of an independent valuer.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (see Note 31).

Impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of depreciation. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations (see Note 30).

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	**2016**	2015
Loans and advances to customers	**26,538,309**	23,369,433
Debt securities available for sale	**1,567,857**	1,029,434
Amounts due from other financial institutions	**315,054**	180,962
Reverse repurchase operations	**1,392,410**	1,571,624
Interest accrued on impaired financial assets	**29,478**	407,727
Other interest income	**815**	914
Total interest and similar income	**29,843,923**	26,560,094
Amounts due to financial institutions	**3,408,550**	4,488,218
Repurchase transactions	**944,762**	2,223,928
Amounts due to Government of the RA	**51,745**	261,825
Amounts due to customers	**17,464,081**	12,558,691
Total interest and similar expense	**21,869,138**	19,532,662

7 Fee and commission income and expense

In thousand Armenian drams	**2016**	2015
Cash operations	**302,094**	286,943
Utility payments	**20,231**	19,979
Payment transactions/money transfers	**453,145**	294,565
Loan servicing	**730,143**	834,773
Plastic cards operations	**635,092**	645,775
Guarantees	**377,633**	240,252
Other fees and commissions	**14,063**	23,896
Total fee and commission income	**2,532,401**	2,346,183
Money transfers	**206,573**	181,300
Cash operations	**12,341**	74,162
Plastic cards operations	**449,504**	407,903
Other expenses	**18,717**	13,370
Total fee and commission expense	**687,135**	676,735

8 Net trading income

In thousand Armenian drams	**2016**	2015
Net income from foreign currency operations	**1,143,458**	1,063,155
Net gains/(losses) from foreign currency swap	**(361,651)**	431,583
Total net trading income	**781,807**	1,494,738

9 Other income

In thousand Armenian drams	**2016**	2015
Fines and penalties received	**1,482,589**	1,092,908
Insurance compensations	**378,649**	-
Income from grants (Note 27)	**82**	82
Income from sale of fixed assets	**248**	17,535
Income from sale of repossessed property	**43,713**	208,093
Income from closing of accounts	**7,128**	4,120
Income from extension of certificates	**7,981**	6,848
Income from loan and guarantee applications examination	**13,972**	18,112
Income from money transfers	**85,398**	52,451
Income from internet banking services	**49,207**	35,765
Income from vehicle technical screening coupons	**37,912**	31,995
Income from operations with precious metals	**38,469**	5
Other income	**30,466**	36,934
Total other income	**2,175,814**	1,504,848

10 Impairment charge/(reversal)

In thousand Armenian drams	**2016**	2015
Loans and advances to customers (Note 17)	**4,602,720**	4,214,082
Other reserves (Note 30)	**-**	(294,268)
Total impairment charge	**4,602,720**	3,919,814

11 Staff costs

In thousand Armenian drams	**2016**	2015
Salary and other compensations	**3,292,413**	3,040,174
Other staff costs	**5,321**	8,750
Total staff costs	**3,297,734**	3,048,924

12 Other expenses

In thousand Armenian drams	2016	2015
Consulting and other services	**85,100**	36,216
Operating lease	**154,460**	118,791
Taxes, other than income tax, duties	**275,210**	222,927
Advertising costs	**171,500**	160,220
Insurance expenses	**40,325**	39,178
Representative expenses	**49,181**	48,906
Expenses on acquisition and issuance of plastic cards	**82,574**	37,902
Legal service expenses	**129,039**	-
Cash collection expenses	**63,252**	65,132
Administrative expenses	**323,580**	311,768
Loss from disposal of repossessed property	**822**	10,832
Repair and maintenance of tangible assets	**337,020**	246,507
Use and servicing expenses of computer programs	**147,011**	152,947
Communications	**87,781**	78,421
Security	**169,384**	172,178
Deposit guarantee fund expenses	**575,649**	232,054
Office supplies	**81,186**	68,103
Business trip expenses	**83,917**	63,505
Payments to Financial system mediator	**29,212**	27,085
Penalties paid	**966**	1,451
Other expenses	**73,204**	35,126
Total other expense	**2,960,373**	2,129,249

13 Income tax expense

In thousand Armenian drams	2016	2015
Current tax expense	**291,200**	291,665
Deferred tax	**(53,650)**	8,483
Total income tax expense	**237,550**	300,148

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

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

In thousand Armenian drams	2016	Effective rate (%)	2015	Effective rate (%)
Profit before tax	**1,290,731**		1,543,926	
Income tax at the rate of 20%	**258,146**	**20**	308,785	20
Non-taxable income	**(5,121)**	**-**	(65,226)	(4)
Non-deductible expenses	**68,509**	**5**	64,030	4
Foreign exchange losses/(gains)	**(57,035)**	**(4)**	25,144	2
Taxable income	**1,136**	**-**	1,597	-
Taxable expenses	**(11,181)**	**(1)**	(21,465)	(1)
Deductions arisen from payments to disabled workers	**(16,904)**	**(1)**	(12,717)	(1)
Total income tax expense	**237,550**	**19**	300,148	20

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	At 31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	At 31 December 2016
Other liabilities	**35,196**	**44,501**	**-**	**79,697**
Loans and advances to customers	**351,926**	**79,288**	**-**	**431,214**
Total deferred tax asset	**387,122**	**123,789**	**-**	**510,911**
Other assets	**(25,765)**	**6,498**	**-**	**(19,267)**
Available-for-sale investments	**(33,092)**	**-**	**(342,789)**	**(375,881)**
Amortization of PPE	**-**	**(82,530)**	**-**	**(82,530)**
Revaluation of PPE	**(106,070)**	**5,893**	**-**	**(100,177)**
Total deferred tax liability	**(164,927)**	**(70,139)**	**(342,789)**	**(577,855)**
Net deferred tax asset/(liability)	**222,195**	**53,650**	**(342,789)**	**(66,944)**

In thousand Armenian drams	At 31 December 2014	Recognized in profit or loss	Recognized in other comprehensive income	At 31 December 2015
Other liabilities	49,573	(14,377)	-	35,196
Loans and advances to customers	336,362	15,564	-	351,926
Total deferred tax assets	385,935	1,187	-	387,122
Other assets	(10,202)	(15,563)	-	(25,765)
Available-for-sale investments	(79,981)	-	46,889	(33,092)
Revaluation of PPE	(111,963)	5,893	-	(106,070)
Total deferred tax liability	(202,146)	(9,670)	46,889	(164,927)
Net deferred tax asset	183,789	(8,483)	46,889	222,195

14 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Cash on hand	**7,677,430**	6,972,241
Correspondent accounts with the CBA	**52,081,824**	8,319,510
Correspondent accounts with other banks	**3,455,901**	8,818,973
Total cash and cash equivalents	**63,215,155**	24,110,724

As of 31 December 2016 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank denominated in foreign currency (2015: respectively 2% and 20%). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits in CBA are non-interest bearing.

As at 31 December 2016 placements in other banks in amounts of AMD 2,525,615 thousand (73%) were due from two banks, which represent significant concentration (2015: AMD 7,391,074 thousand (84%) were due from two banks).

Non-cash transactions performed by the Bank during 2016 are represented by:

- repayment of AMD 715,342 thousand loans and receivables by repossession of collateral (2015: AMD 137,988 thousand).

15 Amounts due from financial institutions

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Deposited funds with CBA	**220,000**	400,000
Loans to financial institutions	**4,259,099**	3,447,049
Reverse repurchase agreements	**1,011,762**	1,452,036
Deposited funds with other non-resident financial institutions	**1,848,371**	597,765
Other accounts	**1,193,045**	210,186
Total amounts due from other financial institutions	**8,532,277**	6,107,036

Loans and deposits are not impaired or overdue.

Deposited fund with the CBA is guarantee deposited placed by the Bank for its operations through ArCa payment system.

As at 31 December 2016 the "Loans to financial institutions" in amounts of AMD 2,164,097 thousand (51%) were concentrated in one financial institution (2015: AMD 2,529,638 thousand (73%) were concentrated in two financial institutions).

As at 31 December 2016 the "Deposited funds in other non-resident financial institutions" clause include guarantee amounts provided by the Bank for its operations through Master Card payment system in the amount of AMD 380,656 thousand (2015: AMD 379,783 thousand), as well as frozen deposit placed by the Bank for membership to Visa payment system in the amount of AMD 218,068 thousand (2015: AMD 217,982 thousand), frozen amount for the guarantee in the "BANK OF GEORGIA" in amount of AMD 1,249,647 thousand (2015: nil).

16 Derivative financial instruments

In thousand Armenian drams	**As of December 31, 2016**			As of December 31, 2015		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Foreign exchange contracts						
Swaps – foreign	**9,922,697**	**22,848**	**42,456**	3,870,000	6,360	14,672
Total derivative financial instruments	**9,922,697**	**22,848**	**42,456**	3,870,000	6,360	14,672

17 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Loans to customers	**157,195,274**	132,949,308
Factoring	**1,603,508**	286,509
Reverse repurchase agreements	**22,150,334**	15,805,575
Overdrafts and credit lines	**79,275,169**	53,123,204
Loans on credit cards	**22,648,880**	21,171,199
Guarantee payments	**581,243**	727,762
Financial leasing	**58**	293
	283,454,466	224,063,850
Less allowance for impairment	**(7,527,829)**	(6,126,013)
Total loans and advances to customers	**275,926,637**	217,937,837

As of 31 December 2016 the average weighted effective interest rates on loans and advances to customers were 16.56% for loans in AMD (2015: 11.13%) and 7.73% for loans in USD and EUR (2015: 7.25%).

As of 31 December 2016 the Bank has acquired collateral pledged for extended loans. The carrying amount of these assets is AMD 4,522,347 thousand (2015: AMD 5,155,015 thousand) (see Note 21). The Bank has the intention to sell these assets in a short period of time.

As of 31 December 2016 the Bank had a concentration of loan portfolio represented by AMD 60,691,027 thousand (21% of the gross loan portfolio) (2015: AMD 42,681,389 thousand or 19% of gorr loan portfolio) with regard to 10 borrowers and parties related with them. Allowance of AMD 1,213,821 thousand was made against these loans (2015: AMD 429,610 thousand).

The fair value of securities pledged under reverse repurchase agreements, which were repledged in other organizations as securities pledged under repurchase agreements amounts to AMD 21,489,072 thousand as at 31 December 2016 (2015: AMD 12,467,687 thousand) (see Note 24, 28).

Analysis of loans and advances to customers by industry sectors is presented below:

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Manufacturing	**27,231,314**	39,318,536
Agriculture	**8,967,585**	6,751,749
Construction	**28,724,052**	23,542,747
Trading	**80,899,045**	46,718,460
Consumer	**42,278,155**	40,589,587
Mortgage loans	**13,172,461**	13,615,118
Other	**82,181,854**	53,527,653
	283,454,466	224,063,850
Less allowance for impairment	**(7,527,829)**	(6,126,013)
Total loans and advances to customers	**275,926,637**	217,937,837

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

In thousand Armenian drams	Manufacture	Agriculture	Const-ruction	Trading	Consumer	Mortgage	Other	Total 2016
At 1 January 2016	**422,946**	**160,469**	**769,931**	**1,578,921**	**1,836,060**	**360,513**	**997,173**	**6,126,013**
Charge/(reversal) for the year	**15,540**	**(571,442)**	**1,522,183**	**1,112,318**	**1,880,853**	**185,669**	**457,599**	**4,602,720**
Amounts written off	**(21,931)**	**(171,991)**	**(1,162,914)**	**(1,569,974)**	**(1,664,041)**	**(249,144)**	**(415,744)**	**(5,255,739)**
Recoveries	**18,702**	**726,299**	**489**	**171,798**	**741,258**	**121,750**	**274,539**	**2,054,835**
At 31 December 2016	**435,257**	**143,335**	**1,129,689**	**1,293,063**	**2,794,130**	**418,788**	**1,313,567**	**7,527,829**
Individual impairment	**-**	**-**	**-**	**-**	**-**	**-**	**330,399**	**330,399**
Collective impairment	**435,257**	**143,335**	**1,129,689**	**1,293,063**	**2,794,130**	**418,788**	**983,168**	**7,197,430**
	435,257	**143,335**	**1,129,689**	**1,293,063**	**2,794,130**	**418,788**	**1,313,567**	**7,527,829**
Gross amount of loans individually impaired, before deducting any individually assessed impairment allowance	**-**	**-**	**-**	**-**	**-**	**-**	**3,586,658**	**3,586,658**

In thousand Armenian drams	Manufacture	Agriculture	Const-ruction	Trading	Consumer	Mortgage	Other	Total 2015
At 1 January 2015	844,060	435,107	172,873	1,949,159	359,470	136,964	653,195	4,550,828
Charge/(reversal) for the year	(368,760)	(89,107)	629,745	(261,698)	3,452,497	488,222	363,183	4,214,082
Amounts written off	(57,211)	(219,279)	(32,687)	(118,011)	(2,074,577)	(288,325)	(21,599)	(2,811,689)
Recoveries	4,857	33,748	-	9,471	98,670	23,652	2,394	172,792
At 31 December 2015	422,946	160,469	769,931	1,578,921	1,836,060	360,513	997,173	6,126,013
Individual impairment	33,617	95,364	549,107	1,153,756	81,461	51,114	470,089	2,434,508
Collective impairment	389,329	65,105	220,824	425,165	1,754,599	309,399	527,084	3,691,505
	422,946	160,469	769,931	1,578,921	1,836,060	360,513	997,173	6,126,013
Gross amount of loans individually impaired, before deducting any individually assessed impairment allowance	385,617	241,247	1,460,408	4,202,036	89,262	137,460	819,262	7,335,292

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

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Individuals	**55,606,677**	54,605,109
Privately held companies	**212,514,304**	161,309,977
Sole proprietors	**4,801,644**	4,174,220
State owned enterprises	**10,264,900**	3,691,290
Non-profit organizations	**266,941**	283,254
	283,454,466	224,063,850
Less allowance for impairment	**(7,527,829)**	(6,126,013)
Total loans and advances to customers	**275,926,637**	217,937,837

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Mortgage	**11,585,109**	12,027,766
Credit cards	**22,738,678**	21,155,320
Consumer	**6,532,202**	1,838,823
Gold loans	**12,887,120**	12,704,941
Car	**54,825**	129,165
Other	**1,808,743**	6,749,094
Total loans and advances to individuals (gross)	**55,606,677**	54,605,109

The information on financial leasing is introduced below:

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Gross investments on finance lease		
Till 1 year	**58**	293
	58	293
Unearned future financial gains from finance lease	**-**	-
Net investments in finance lease	**58**	293

Impairment allowance for finance lease is included in the impairment allowance of loans and advances to customers and amount to AMD 29 thousand as at 31 December 2016 (2015: AMD 147 thousand).

Implied interest rate for finance lease is 19%.

At 31 December 2016 and at 31 December 2015 the estimated fair value of loans and advances to customers approximates it carrying value (Note 32).

Maturity analysis of loan portfolio is presented in Note 34.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

18 Investments available for sale

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Unquoted investments		
Equity instruments	**14,034**	10,964
Shares of Armenian companies	**8,857**	10,093
RA state bonds	**-**	1,136,455
RA corporate bonds	**146,912**	532,125
Accrued interest	**1,506**	43,424
Total investments	**171,309**	1,733,061

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

All unquoted available-for-sale equity shares are recorded at cost since its fair value cannot be reliably estimated. There is no quoted market on these investments and the Bank intends to hold them for a long term.

Available for sale debt securities by effective interest rates and maturity dates comprise:

In thousand Armenian drams	2016		2015	
	%	**Maturity**	%	Maturity
Government bonds	**-**	**-**	8.26-16.90%	2017-2032
Promissory notes	**9.50-10.59%**	**2017-2019**	7.50-9.50%	2017-2018

At 31 December 2016 available for sale debt securities at fair value in the amount of AMD 14,178,041 thousand (2015: AMD 9,005,700 thousand) were sold to third parties on reverse repurchase agreements for periods not exceeding one months. These securities were classified as securities pledged under repurchase agreements on the face of the balance sheet (see Note 28).

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Equipments	Vehicles	Computers and com-munication means	Other fixed assets	Capital investments in leased fixed assets	Total
COST/REVALUED AMOUNT							
At January 1, 2015	7,574,519	500,011	253,657	2,942,939	1,076,397	118,377	12,465,900
Additions	3,991	41,423	44,764	340,122	131,137	55,959	617,396
Disposals	-	(562)	(74,868)	(1,245)	(1,958)	(1,959)	(80,592)
Reclassification	-	-	-	460	(460)	-	-
At December 31, 2015	**7,578,510**	**540,872**	**223,553**	**3,282,276**	**1,205,116**	**172,377**	**13,002,704**
Additions	**778,920**	**30,351**	**8,017**	**201,281**	**64,521**	**66,829**	**1,149,919**
Disposals	**-**	**(1,359)**	**-**	**(1,022)**	**(4,639)**	**(35,031)**	**(42,051)**
Reclassification	**-**	**141**	**-**	**-**	**(141)**	**-**	**-**
At December 31, 2016	**8,357,430**	**570,005**	**231,570**	**3,482,535**	**1,264,857**	**204,175**	**14,110,572**
ACCUMULATED DEPRECIATION							
At January 1, 2015	290,106	376,009	163,429	1,909,865	579,115	19,992	3,338,516
Depreciation charge	290,495	54,001	38,085	219,592	156,009	3,837	762,019
Disposals	-	(524)	(48,411)	(80)	(1,733)	-	(50,748)
Reclassification	-	-	-	274	(274)	-	-
At December 31, 2015	**580,601**	**429,486**	**153,103**	**2,129,651**	**733,117**	**23,829**	**4,049,787**
Depreciation charge	**291,826**	**43,388**	**33,241**	**287,730**	**147,450**	**5,233**	**808,868**
Disposals	**-**	**(726)**	**-**	**(376)**	**(3,977)**	**-**	**(5,079)**
At December 31, 2016	**872,427**	**472,148**	**186,344**	**2,417,005**	**876,590**	**29,062**	**4,853,576**
CARRYING VALUE							
At December 31, 2015	6,997,909	111,386	70,450	1,152,625	471,999	148,548	8,952,917
At December 31, 2016	**7,485,003**	**97,857**	**45,226**	**1,065,530**	**388,267**	**175,113**	**9,256,996**

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser at 31 December 2013 using a combination of market, income and cost methods resulting in a revaluation of AMD

589,278 thousand. Management has based its estimate of the fair value of the buildings on the results of the independent appraisal.

Management believes that as of 31 December 2016 fair value of buildings does not differ significantly from its revalued amount.

If buildings were presented at the difference of cost and accumulated depreciation, the carrying amount would have been AMD 6,599,017 thousand as at 31 December 2016 (2015: AMD 6,428,095 thousand).

Fully depreciated items

As at 31 December 2016 fixed assets included fully depreciated assets at cost in the amount of AMD 118,103 thousand (2015: AMD 123,088 thousand).

Fixed assets in the phase of installation

As at 31 December 2016 fixed assets included assets in the phase of installation in the amount of AMD 475,177 thousand (2015: AMD 288,044 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As at 31 December 2016 the Bank has contractual commitments in amount of AMD 94,095 thousand in respect of ATMs and other purchased property (2015: either).

20 Intangible assets

In thousand Armenian drams	Licenses	Software	Capital investments	Other	Total
COST					
At January 1, 2015	1,314,448	175,671	138,404	66,215	1,694,738
Additions	431,813	33,000	3,233	9,024	477,070
Disposals	(7,380)	-	-	-	(7,380)
Reclassification	88,208	48,582	(136,790)	-	-
At December 31, 2015	**1,827,089**	**257,253**	**4,847**	**75,239**	**2,164,428**
Additions	**518,140**	**6,771**	**-**	**60,567**	**585,478**
Disposals	**(6,652)**	**-**	**-**	**-**	**(6,652)**
At December 31, 2016	**2,338,577**	**264,024**	**4,847**	**135,806**	**2,743,254**
ACCUMULATED AMORTISATION					
At January 1, 2015	78,817	2,275	-	-	81,092
Disposals	(7,380)	-	-	-	(7,380)
Amortization charge	63,548	9,930	-	158	73,636
At December 31, 2015	**134,985**	**12,205**	**-**	**158**	**147,348**
Disposals	**(6,652)**	**-**	**-**	**-**	**(6,652)**
Amortization charge	**160,565**	**15,730**	**-**	**3,336**	**179,631**
At December 31, 2016	**288,898**	**27,935**	**-**	**3,494**	**320,327**
CARRYING VALUE					
At December 31, 2015	1,692,104	245,048	4,847	75,081	2,017,080
At December 31, 2016	**2,049,679**	**236,089**	**4,847**	**132,312**	**2,422,927**

Restrictions on intangible assets

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

Contractual commitments

As at 31 December 2016 the Bank has AMD 41,625 thousand contractual commitments in respect of purchases of licenses (2015: AMD 31,525 thousand).

21 Repossessed assets

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as at December 31 are shown below:

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Property	3,764,206	4,207,967
Other assets	758,141	947,048
Total repossessed assets	4,522,347	5,155,015

As of the date of repossession the collateral, it is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

22 Other assets

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Debtors and other receivables	718,929	904,024
Total other financial assets	718,929	904,024
Prepayments	442,592	371,623
Due from staff	54	124
Paintings	47,050	47,050
Future period expenses	29,103	18,207
Precious metals	44,555	144,762
Prepaid other taxes	-	626
Materials	377,026	456,005
Other	108,187	32,045
Total other non-financial assets	1,048,567	1,070,442
Total other assets	1,767,496	1,974,466

23 Amounts due to financial institutions

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Loans from financial institutions	28,814,598	27,922,941
Deposits from financial institutions	17,671,899	15,824,157
Current accounts of financial institutions	1,064,279	73,024
Correspondent accounts of other banks	1,329,584	6
Loans under repurchase agreements	33,947,096	20,910,218
Total amounts due to financial institutions	82,827,456	64,730,346

As at 31 December 2016 loans from financial institutions in amount of AMD 12,627,202 thousand (44%) were due from 1 financial institution (2015: nil).

Loans and deposits from financial institutions have fixed interest rates.

As at 31 December 2016 the effective interest rates on amounts due to financial institutions was 8.92% for borrowings in AMD (2015: 8.01%) and 7.89% for borrowings in USD and EUR (2015: 7.61%).

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

24 Financial liabilities held for trading

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Repledged securities by repurchase agreements (see Note 17)	**21,489,072**	12,467,687
Total financial liabilities held for trading	**21,489,072**	12,467,687

25 Amounts due to Government of the RA

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Current/Settlement accounts	**365,540**	47,330
Received loans	**795,855**	3,097,805
Total amounts due to Government of the RA	**1,161,395**	3,145,135

At 31 December 2016 loans received from the RA Government include loans received from "Rural finance facility-Project Implementation Unit State Institution" in the amount of AMD 628,296 thousand (2015: AMD 705,487 thousand) and "Millennium Challenge Account - Armenia" in the amount of AMD 28,739 thousand (2015: AMD 28,642 thousand), and within the scope of "Small and medium business loan project" of German-Armenian Fund in the amount of AMD 86,605 thousand (2015: AMD 2,321,103 thousand).

26 Amounts due to customers

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Corporate customers		
Current/Settlement accounts	**36,203,765**	29,259,757
Time deposits	**26,612,345**	14,059,697
	62,816,110	43,319,454
Retail customers		
Current/Demand accounts	**15,002,349**	9,782,821
Time deposits	**182,302,603**	127,385,526
	197,304,952	137,168,347
Total amounts due to customers	**260,121,062**	180,487,801

All customer deposits carry fixed interest rates.

As at 31 December 2016 included in current accounts of corporate and individual customers are deposits amounting to AMD 17,911,300 thousand (2015: AMD 14,303,074 thousand) held as security against letters of credit issued and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2016 the aggregate balance of top ten customers of the Bank (including relating parties, see Note 31) amounts to AMD 62,124,642 thousand (2015: AMD 42,279,678 thousand) or 23.9% of total customer accounts (2015: 23.4%).

As of 31 December 2016 the effective interest rates on amounts due to customers ranged from 3% to 19.50% for amounts attracted in AMD (2015: from 3.00% to 20.03%) and from 1.51% to 10.76% for amounts attracted in USD and EUR (2015: from 1.51% to 17.13%).

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

27 Other liabilities

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Accounts payables	**338,017**	218,582
Due to personnel	**214,868**	148,683
Total other financial liabilities	**552,885**	367,265
Tax payable, other than income tax	**302,522**	224,634
Future period revenue	**373**	526
Grants related to assets	**1,791**	1,873
Other operating liabilities	**37**	462
Other	**51,673**	78,939
Total other non financial liabilities	**356,396**	306,434
Total other liabilities	**909,281**	673,699

Grants related to assets

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
At January 1	**1,873**	1,955
Recognised as income (Note 9)	**(82)**	(82)
At December 31	**1,791**	1,873

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2016	2015	**2016**	2015
Loans and advances to customers (Note 17)	**21,489,072**	12,467,687	**5,937,540**	8,764,485
Available-for-sal investments (Note 18)	**14,178,041**	9,005,700	**28,009,556**	12,145,733
At 31 December (Note 23)	**35,667,113**	21,473,387	**33,947,096**	20,910,218

29 Equity

As at 31 December 2016 the Bank's registered and paid-in share capital was AMD 31,374,560 thousand (2015: AMD 22,907,500 thousand).

In accordance with the Bank's statues, the share capital consists of 41,120 ordinary shares, all of which have a par value of AMD 763 thousand each.

The only shareholder of the Bank as at 31 December 2016 and 2015 is Vitaliy Grigoryants.

As at 31 December 2016 the Bank did not possess any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

In 2016 the shareholder of the Bank increased its share capital by AMD 8,467,060 thousand (2015: nil), from which AMD 4,005,540 thousand from the means of shareholder and AMD 4,461,520 thousand from the retained earnings.

The share capital of the Bank was contributed by the shareholder in Armenian Drams, and he is entitled to dividends and any capital distribution in Armenian Drams.

Distributable among shareholders reserves equal the amount of retained earnings calculated in accordance with the RA legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's net profit of the previous year reported in statutory books.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Undrawn loan commitments	**19,944,553**	7,533,425
Letters of credit	**156,016**	168,430
Guarantees	**32,179,463**	18,724,709
Undrawn overdrafts	**863,885**	371,660
Total commitments and contingent liabilities	**53,143,917**	26,798,224

The maximum exposure to credit risk of Loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

The movement of other allowances is the following:

In thousand Armenian drams	2016	2015
Balance at 1 January	**-**	294,268
Reversal	**-**	(294,268)
Balance at 31 December	**-**	-

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for buildings and premises.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Not later than 1 year	**24,248**	21,504
Total operating lease commitments	**24,248**	21,504

Contractual commitments

Information on contractual commitments is presented in notes 19, 20.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

As at 31 December 2016, the Bank has insured the truthfulness of employees, Bank's buildings and constructions, transit, forged checks, securities and money, Bank's branches and their contents, computer fraud, responsibility of directors and management, as well as professional liability.

Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is the resident of the Russian Federation Vitally Grigoriyants.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	**As of December 31, 2016**		As of December 31, 2015	
	Shareholders and related parties	**Key management personnel and related parties**	Shareholders and related parties	Key management personnel and related parties
STATEMENT OF FINANCIAL POSITION				
Amounts due from financial institutions				
At January 1	**-**	**1,398,000**	-	105,000
Increase	**-**	**13,718,346**	-	1,800,000
Decrease	**-**	**(12,179,601)**	-	(507,000)
At December 31	**-**	**2,936,745**	-	1,398,000
Loans and advances to customers				
At January 1, gross	**22,833**	**1,269,290**	22,694	2,858,725
Issued during the year	**365,572**	**1,098,865**	638,186	2,995,724
Repayments during the year	**(388,405)**	**(1,911,494)**	(638,047)	(4,585,159)
At December 31, gross	**-**	**456,661**	22,833	1,269,290
Less allowance for loan impairment	**-**	**(7,307)**	(229)	(12,693)
At December 31	**-**	**449,354**	22,604	1,256,597
Amounts due to customers				
At January 1	**17,763**	**639,418**	149,435	679,055
Received during the year	**20,191,368**	**15,525,305**	3,079,309	50,838,366
Repaid during the year	**(19,407,575)**	**(15,393,312)**	(3,210,981)	(50,878,003)
At December 31	**801,556**	**771,411**	17,763	639,418
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME				
Interest income	**916**	**226,739**	7,549	235,504
Interest expense	**(33,316)**	**(359,054)**	(14,534)	(219,987)
Impairment/(reversal) for credit losses	**(229)**	**(5,386)**	2	(15,894)

The loans issued to directors and other key management personnel (and close family members) are repayable over 1-15 years and have interest rates of 7-24% (2015: 7-24%, 1-15 years). The loans advanced to the directors are collateralised by gold, real estate, cash and other property.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2016**	2015
Salaries and other short-term benefits	**319,417**	330,375
Total key management compensation	**319,417**	330,375

32 Fair value measurement

The Bank's Board determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the investment committee after discussion with and approval by the Bank's audit committee.

At each reporting date, the Board of the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Board of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Board of the Bank, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	As of 31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	63,215,155	-	63,215,155	63,215,155
Amounts due from financial institutions	-	8,532,277	-	8,532,277	8,532,277
Loans and advances to customers	-	275,926,637	-	275,926,637	275,926,637
Other financial assets	-	718,929	-	718,929	718,929
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	82,827,456	-	82,827,456	82,827,456
Amounts due to Government of the RA	-	1,161,395	-	1,161,395	1,161,395
Amounts due to customers	-	260,121,062	-	260,121,062	260,121,062
Other financial liabilities	-	552,885	-	552,885	552,885

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	24,110,724	-	24,110,724	24,110,724
Amounts due from financial institutions	-	6,107,036	-	6,107,036	6,107,036
Loans and advances to customers	-	217,937,837	-	217,937,837	217,937,837
Other financial assets	-	904,024	-	904,024	904,024
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	64,730,346	-	64,730,346	64,730,346
Amounts due to Government of the RA	-	3,145,135	-	3,145,135	3,145,135
Amounts due to customers	-	180,487,801	-	180,487,801	180,487,801
Other financial liabilities	-	367,265	-	367,265	367,265

Amounts from and due to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 6.0% to 24% per annum (2015: 6.0% to 24% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property appraisals.

Amounts due to customers

The fair value of deposits of customers is calculated based on discounted cash flows method, by applying the interest rates of deposits with similar maturity period. The fair value of demand deposits is the amount repayable on the reporting date.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of 31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Derivative financial assets	**-**	**22,848**	**-**	**22,848**
Investments available-for-sale	**-**	**148,418**	**-**	**148,418**
Securities pledged under repurchase agreements	**-**	**35,667,112**	**-**	**35,667,112**
Total	**-**	**35,838,378**	**-**	**35,838,378**
FINANCIAL LIABILITIES				
Derivative financial liabilities	**-**	**42,456**	**-**	**42,456**
Liabilities accounted at fair value through profit or loss	**-**	**21,489,072**	**-**	**21,489,072**
Total	**-**	**21,531,528**	**-**	**21,531,528**
NET FAIR VALUE	**-**	**14,306,850**	**-**	**14,306,850**

In thousand Armenian drams	As of 31 December 2015			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Derivative financial assets	-	6,360	-	6,360
Investments available-for-sale	-	1,712,004	-	1,712,004
Securities pledged under repurchase agreements	-	21,473,387	-	21,473,387
Total	-	23,191,751	-	23,191,751
FINANCIAL LIABILITIES				
Derivative financial liabilitis	-	14,672	-	14,672
Liabilities accounted at fair value through profit or loss	-	12,467,687	-	12,467,687
Total	-	12,482,359	-	12,482,359
NET FAIR VALUE	-	10,709,392	-	10,709,392

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

Unlisted equity investments

The fair value of Bank's investment in unlisted investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment.

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	**As of 31 December 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Buildings	**-**	**-**	**8,357,430**	**8,357,430**
Total	**-**	**-**	**8,357,430**	**8,357,430**
NET FAIR VALUE	**-**	**-**	**8,357,430**	**8,357,430**

In thousand Armenian drams	As of 31 December 2015			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Buildings	-	-	7,578,510	7,578,510
Total	-	-	7,578,510	7,578,510
NET FAIR VALUE	-	-	7,578,510	7,578,510

Fair value measurements in Level 3

The Bank's non financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

The non-financial assets and liabilities within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	**Buildings**	**Total**
NON FINANCIAL ASSETS		
Balance as at 1 January 2016	**7,578,510**	**7,578,510**
Purchases	**778,920**	**778,920**
Balance as at 31 December, 2016	**8,357,430**	**8,357,430**
NET FAIR VALUE	**8,357,430**	**8,357,430**

In thousand Armenian drams	Buildings	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2015	7,574,519	7,574,519
Purchases	3,991	3,991
Balance as at 31 December, 2015	7,578,510	7,578,510
NET FAIR VALUE	7,578,510	7,578,510

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using comparative and income approaches that reflect observed prices for recent market transactions for similar properties and includes adjustments related to abovementioned land factors, including plot size, location, pledging and current use, etc.

The land and buildings were re-valued on 31 December 2013.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

33 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	**As of 31 December 2016**					
				Amounts not off-set		
	Gross financial asset/liabilities recognised	**Gross financial assets/liabilities offset**	**Net financial assets/liabilities presented**	**Financial instruments**	**Cash collateral received**	**Net**
FINANCIAL ASSETS						
Reverse repurchase agreements (Note 17)	**22,150,334**	**-**	**22,150,334**	**(21,489,071)**	**-**	**661,263**
FINANCIAL LIABILITIES						
Amounts due to financial institutions (Notes 23, 28)	**(33,947,096)**	**-**	**(33,947,096)**	**35,667,113**	**-**	**1,720,017**

In thousand Armenian drams	As of 31 December 2015					
				Amounts not off-set		
	Gross financial asset/liabilities recognised	Gross financial assets/liabilities offset	Net financial assets/liabilities presented	Financial instruments	Cash collateral received	Net
FINANCIAL ASSETS						
Reverse repurchase agreements (Note 17)	15,805,575	-	15,805,575	(12,467,687)	-	3,337,888
FINANCIAL LIABILITIES						
Amounts due to financial institutions (Notes 23, 28)	(20,910,218)	-	(20,910,218)	21,473,387	-	563,169

34 Maturity analysis of financial assets and financial liabilities

The table below shows an analysis of financial assets and financial liabilities analyzed according to when they are expected to be recovered or settled. See Note 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								**2016**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash and cash equivalents	**63,215,155**	**-**	**-**	***63,215,155***	**-**	**-**	**-**	**63,215,155**
Amounts due from financial institutions	**4,503,908**	**1,011,762**	**-**	***5,515,670***	**948,280**	**2,068,327**	***3,016,607***	**8,532,277**
Derivative financial instruments	**22,848**	**-**	**-**	***22,848***	**-**	**-**	**-**	**22,848**
Loans and advances to customers	**77,828,200**	**12,026,848**	**51,554,693**	***141,409,741***	**53,144,367**	**81,372,529**	***134,516,896***	**275,926,637**
Investments available for sale	**-**	**-**	**49,900**	***49,900***	**98,518**	**22,891**	***121,409***	**171,309**
Securities pledged under repurchase agreements	**35,667,112**	**-**	**-**	***35,667,112***	**-**	**-**	**-**	**35,667,112**
Other financial assets	**718,929**	**-**	**-**	***718,929***	**-**	**-**	**-**	**718,929**
	181,956,152	**13,038,610**	**51,604,593**	***246,599,355***	**54,191,165**	**83,463,747**	***137,654,912***	**384,254,267**
LIABILITIES								
Derivative financial liabilities	**42,456**	**-**	**-**	***42,456***	**-**	**-**	**-**	**42,456**
Amounts due to financial institutions	**44,772,358**	**3,976,630**	**10,210,949**	***58,959,937***	**18,228,935**	**5,638,584**	***23,867,519***	**82,827,456**
Financial liabilities held for trading	**21,489,072**	**-**	**-**	***21,489,072***	**-**	**-**	**-**	**21,489,072**
Amounts due to Government of the RA	**374,240**	**51,216**	**189,630**	***615,086***	**213,004**	**333,305**	***546,309***	**1,161,395**
Amounts due to customers	**69,083,636**	**35,894,476**	**110,342,916**	***215,321,028***	**43,198,955**	**1,601,079**	***44,800,034***	**260,121,062**
Other financial liabilities	**552,885**	**-**	**-**	***552,885***	**-**	**-**	**-**	**552,885**
	136,314,647	**39,922,322**	**120,743,495**	***296,980,464***	**61,640,894**	**7,572,968**	***69,213,862***	**366,194,326**
Net position	**45,641,505**	**(26,883,712)**	**(69,138,902)**	***(50,381,109)***	**(7,449,729)**	**75,890,779**	***68,441,050***	**18,059,941**
Accumulated gap	**45,641,505**	**18,757,793**	**(50,381,109)**		**(57,830,838)**	**18,059,941**		

In thousand Armenian drams — 2015

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	24,110,724	-	-	*24,110,724*	-	-	-	24,110,724
Amounts due from financial institutions	4,188,856	5,833	459,848	*4,654,537*	454,734	997,765	*1,452,499*	6,107,036
Derivative financial assets	6,360	-	-	*6,360*	-	-	-	6,360
Loans and advances to customers	44,208,321	20,182,555	33,985,742	*98,376,618*	93,869,324	25,691,895	*119,561,219*	217,937,837
Investments available for sale	-	34,462	8,962	*43,424*	1,668,580	21,057	*1,689,637*	1,733,061
Securities pledged under repurchase agreement	1,284,635	7,747,353	3,855,350	*12,887,338*	2,219,308	6,366,741	*8,586,049*	21,473,387
Other financial assets	904,024	-	-	*904,024*	-	-	-	904,024
	74,702,920	27,970,203	38,309,902	*140,983,025*	98,211,946	33,077,458	*131,289,404*	272,272,429
LIABILITIES								
Derivative financial liabilities	14,672	-	-	*14,672*	-	-	-	14,672
Amounts due to financial institutions	36,968,298	2,992,110	9,769,925	*49,730,333*	9,528,695	5,471,318	*15,000,013*	64,730,346
Financial liabilities held for trading	1,284,635	7,359,555	3,823,497	*12,467,687*	-	-	-	12,467,687
Amounts due to Government of the RA	58,266	30,971	1,925,754	*2,014,991*	1,130,144	-	*1,130,144*	3,145,135
Amounts due to customers	51,199,902	21,715,679	82,565,487	*155,481,068*	25,005,028	1,705	*25,006,733*	180,487,801
Other financial liabilities	367,265	-	-	*367,265*	-	-	-	367,265
	89,893,038	32,098,315	98,084,663	*220,076,016*	35,663,867	5,473,023	*41,136,890*	261,212,906
Net position	(15,190,118)	(4,128,112)	(59,774,761)	*(79,092,991)*	62,548,079	27,604,435	*90,152,514*	11,059,523
Accumulated gap	(15,190,118)	(19,318,230)	(79,092,991)		(16,544,912)	11,059,523		

35 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The risk management procedure is organized in compliance with the Bank's mission, principal and interim goals and is aimed at the improvement of the financial position of the Bank and the Bank's reputation.

The main goals of risk management policy of the Bank is to disclose, assess and make manageable all possible risks that relate immediately to the Bank's activity, help the Bank's management make optimal decisions, assist in realistic planning of the Bank's strategy, taking into account the principles of risk/profitability ratio by taking up manageable risks, determining preferable sectors of resource allocation, providing the maintenance of ratios set forth by the CBA, as well as interbank ratios of the Bank.

The Risk management policy of the Bank arises from the following main principles:

- ✓ The risk management must be mitigating and justified
- ✓ Risks must be fully disclosed, objectively assessed and efficiently managed
- ✓ When reacting to disclosed risks the risk management/supervision expenses and consequences of undesired cases must be weighed against gains expected as a result of risk mitigation
- ✓ Risk management may include such approaches as procedures aimed at risk mitigation, risk transfer to third parties, for example, through insurance, and risk acceptance, when risk

mitigation expenses exceed assessed losses or their mitigation is actually impossible. For this purpose, accepted level of risk is determined.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Bank's risk management policy allows to efficiently manage risks relating to assets and liabilities of the Bank and Bank's customers through exclusion and minimization of losses caused by risks by providing acceptable level of profitability, liquidity and solvency

The risk management in the Bank is carried out through limits set forth by all business processes, internal legal acts regulating the activity of the latter, all procedures and operations in a precise and documented manner.

Risk management structure

The Board of the Bank, the Chair of the Executive Board, the Executive Board and the Management of the Bank within the frames of their responsibilities set forth by RA legislation and internal legal acts of the Bank are responsible for the formation, viability and efficiency of proper Risk management system in the Bank; however, there are separate independent bodies responsible for managing and monitoring risks.

Risk management committee and Risk management and planning department

The Risk management committee and risk management and planning departments are responsible for carrying out risk management policy of the Bank.

The risk management and planning department continually supervise risk levels assumed by the Bank and the maintenance of limits relating to these risks, the possible effect of risks on the Bank's activity are assessed through different stress-tests.

Reports, analysis and proposals concerning risks relating to the Bank's activity are presented by the Risk management and planning department (as well as other beneficiary departments) are discussed in Risk management committee meetings and presented to the Executive Board of the Bank with the purpose of making appropriate decision.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and presents his/her conclusions and suggestions to the Board of the Bank.

Risk characterization and assessment

Depending on a variety of factors the Bank finds it expedient to divide banking risks into external and internal risks.

External risks are country, price, competitive and force major risks.

Internal risks are credit, liquidity, interest rate, foreign currency, operating, personnel and money laundering risks.

Country risk

Country risk is managed by the Bank using rankings assigned by international rating agencies (Moody's, S&P, Fitch) to international banks and institutions. Risk management department performs periodic monitoring of ratings of foreign banks who are counteragents of the Bank.

Price risk

Possible minimum level of price risks is provided within the frames of the following measures: analysis of financial market structural, volume and price index dynamics, analysis of liquidity of separate financial instruments, disclosure of present tendencies, assessment of possible losses through stress tests on monthly basis, determination of financial instruments' limit (by the type of operation with securities, dealer, issuer).

Competitive risk

Management of competitive risk in the Bank is performed by business departments and Marketing analysis department, through periodic comparison of variety of services and terms offered by the Bank and other banks.

Force major risk

The Bank has server reserve center at its disposal according to the requirement of ISO 27001-2005. The location of the centre outside the head office of the Bank, in a remote place, will allow providing the Bank's activity in force major situation.

Credit risk

The main issue of management of credit risks for the Bank is timely disclosure of credit risks, assessment and taking appropriate measures for their reduction.

The credit risk in the Bank is assessed not only for each borrower, but also for the loan portfolio in full. According to appropriate methodology elaborated by the Bank the potential solvency of the borrower is assessed before extension of the loan. From the perspective of mitigation of credit risk, the security and expediency of the loan are given significant importance. After loan extension, over the full term of the credit contract, credit monitoring is performed by the Bank for periodically assessing the solvency and security of the loans and taking appropriate measures for mitigating possible credit risks. The Bank's loan portfolio is periodically analyzed by economic sectors, customers and loan types for providing diversification and quality of the loan portfolio.

The activity of the Loan committee is significant in mitigation of credit risk. Loan committee is the body executing loan policy of the Bank, whose purpose is the management of loan policy and formation of quality loan portfolio. The main issue of the Credit committee is to make professional protocol or final decision concerning execution and servicing of instruments exposed to credit risk.

Liquidity risk

The liquidity management purpose in the Bank is to create a volume of such financial means, which would enable to satisfy legal cash requirements of all kinds of creditors, depositors and other clients without serious issues, which may be reflected in the Bank's balance and off-balance sheet articles, as well as provide maximum level of profitability along with all these factors.

Management of assets and liabilities by mutual agreement is carried out in the Bank for providing fluent liquidity and efficient liquidity risk management by providing:

- ✓ Providing existence of highly liquid assets

- ✓ Stability of resources
- ✓ Acceptable limits of maturity gaps of assets and liabilities
- ✓ Opportunities for attracting means from external sources

With the purpose of making correct decision regarding liquidity management of the Bank the maturity analysis of assets and liabilities is given great importance, which is performed by the calculation model of maturity gaps (GAP) by demand and accumulated separations. Demand liquidity is calculated on daily basis for making correct circumstances decision.

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Relevant reports and analysis are periodically presented to the Executive Board of the Bank.

Credit risk in the Bank is managed according to the Bank's lending policy and the field is regulated by other internal legal acts. The risk management executive body performs monitoring of loan portfolio on daily basis, loan portfolio dynamics calculation based on constructed series and analysis of quality of portfolio by products and branches, based on which forecasting of quality indexes of loan portfolio are performed. The risk management executive body performs loan monitoring of several loan types by the approved procedure, and when necessity arises, monitoring of other loans based on deterioration of the financial position of the borrower. Loans extended by the Bank are approved by the risk executive body according to internal legal acts by reducing credit risk.

As at 31 December 2016 and 2015 the carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

35.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2016 and 2015.

In thousand Armenian drams	Armenia	OECD countries	Other non-OECD countries	Total
Cash and cash equivalents	**59,761,735**	**3,151,220**	**302,200**	**63,215,155**
Amounts due from financial institutions	**4,434,855**	**2,769,774**	**1,327,648**	**8,532,277**
Derivative financial assets	**22,848**	**-**	**-**	**22,848**
Loans and advances to customers	**220,094,320**	**678,916**	**55,153,401**	**275,926,637**
Investments available for sale	**157,275**	**14,034**	**-**	**171,309**
Securities pledged under repurchase agreements	**35,667,112**	**-**	**-**	**35,667,112**
Other financial assets	**716,364**	**155**	**2,410**	**718,929**
As at 31 December 2016	**320,854,509**	**6,614,099**	**56,785,659**	**384,254,267**
As at 31 December 2015	218,623,743	5,430,016	48,218,670	272,272,429

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December 2016 and 2015.

In thousand Armenian drams	Financial institutions	Manufac-turing	Agriculture	Construc-tion	Trading	Consumer	Mortgage	Other	Total
Cash and cash equivalents	**63,215,155**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**63,215,155**
Amounts due from financial institutions	**8,532,277**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,532,277**
Derivative financial assets	**22,848**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,848**
Loans and advances to customers	**-**	**26,508,120**	**8,729,429**	**27,961,214**	**78,750,572**	**41,155,355**	**12,822,634**	**79,999,313**	**275,926,637**
Investments available for sale	**171,309**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**171,309**
Securities pledged under repurchase agreements	**779,762**	**-**	**-**	**-**	**-**	**-**	**-**	**34,887,350**	**35,667,112**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**718,929**	**718,929**
As at 31 December 2016	**72,721,351**	**26,508,120**	**8,729,429**	**27,961,214**	**78,750,572**	**41,155,355**	**12,822,634**	**115,605,592**	**384,254,267**
As at 31 December 2015	30,777,302	38,243,548	6,567,153	22,899,077	45,441,155	39,479,848	13,242,874	75,621,472	272,272,429

35.1.2 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved, in line with changes in Bank's operating environment, not less than annually, by the Board of Directors.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As at 31 December 2016**	As at 31 December 2015
Loans collateralized by real estate	**80,849,103**	67,151,336
Loans collateralized by gold	**13,663,933**	13,816,501
Loans collateralized by securities	**32,075,100**	20,941,544
Loans collateralized by guarantees of institutions	**55,788,437**	45,497,166
Loans collateralized by vehicles	**60,918**	181,555
Loans collateralized by cash	**48,383,619**	32,866,911
Loans collateralized by stock	**4,895,941**	3,196,380
Other collateral	**47,737,415**	40,412,457
Total loans and advances to customers (gross)	**283,454,466**	224,063,850

The amounts presented in the above table are the carrying amounts of loans, and it is not compulsory for those to present the fair value of collateral. The assessment of market values of collaterals is based on assessment of collateral according to the date of issue of the loan. Generally, those are not updated until the loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**2016**	2015
	%	%
Loans and advances to customers		
Construction	**3.9**	0.1
Consumer	**6.6**	4.3
Mortgage	**3.2**	2.3

As of 31 December 2016 and 2015 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams				As at 31 December 2016	
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacturing	**-**	**-**	**-**	**8,829,724**	**8,829,724**
Agriculture	**-**	**-**	**-**	**351,830**	**351,830**
Construction	**123,448**	**-**	**-**	**1,618,024**	**1,741,472**
Trade	**-**	**94,228**	**-**	**3,666,572**	**3,760,800**
Consumer	**1,432**	**163,891**	**-**	**1,907,149**	**2,072,472**
Mortgage	**-**	**-**	**-**	**314,723**	**314,723**
Other	**-**	**-**	**1,268,650**	**3,376,174**	**4,644,824**
Total	**124,880**	**258,119**	**1,268,650**	**20,064,196**	**21,715,844**

In thousand Armenian drams				As at 31 December 2015	
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacturing	687,840	-	-	7,004,553	7,692,393
Agriculture	44,693	20,863	28,624	1,466,259	1,560,439
Construction	-	-	1,296,301	667,139	1,963,440
Trade	9,430	121,202	369,856	1,970,820	2,471,308
Consumer	1,137,972	325,206	220,226	5,090,966	6,774,370
Mortgage	97,690	82,687	47,935	541,591	769,903
Other	29,831	147	56,704	5,251,318	5,338,000
Total	2,007,456	550,105	2,019,646	21,992,646	26,569,853

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

35.2.1 Market risk – Trading

For calculating the risk of securities held for sale the Bank applies interest risk calculation methods and approaches of Basel 2. According to those, the interest rate risk is set as the total of special and general risks of interest rate.

For the purpose of calculating interest rate risk debt security positions are calculated based on below mentioned principles for collective debt securities. Debt securities participating in the calculation of same positions must:

- Be issued by the same person, and
- Be reflected in the same currency,
- Have the same profitability, or difference between profitability must not exceed 0.2

Calculation of special risk of interest rate

For the purpose of calculation of special risk of interest rate calculation of positions of debt securities is performed. After the calculation of positions, gross position of debt securities is calculated. For including debt securities at differentiated weights in the calculation of gross position, those are classified into the following categories:

- State debt securities,
- positive debt securities
- other debt securities.

Calculation of general risk of interest rate

For the purpose of calculation of general risk of interest rate calculation of positions of debt securities is performed as well. Moreover, gross net position of debt securities is calculated as the difference of total sum of long positions of debt securities and short positions (absolute value). After the calculation of positions of debt securities the long and short positions of debt securities are allocated during the periods until repayment in appropriate weights. For each period till maturity the minimum position of debt securities is the minimal value of total sum of all long positions and total sum of all short positions (absolute value). Depending on the maturity all securities are divided into appropriate zones.

The general risk of the interest rate of the set date is the total sum of below mentioned values.

- 10% of minimal position of each period until maturity,
- 40% of minimal position of first zone,
- 30% of minimal position of second zone,
- 30% of minimal position of third zone,
- 40% of minimal position between first and second zones,
- 40% of minimal position between second and third zones
- 150% of minimal position between third and fourth zones,
- 100% of gross net position of debt securities

On days, when the Bank's balance sheet has not incurred changes (including non working days), the previous day data are included in the calculation of daily data.

35.2.2 Market risk – Non-trading

Interest rate risk

The interest rate risk management issue in the Bank is to maintain the target level of interest rate spread and net interest margin of assets and liabilities. For the purpose of mitigating interest rate risk specially elaborated mechanisms of price formation (interest rate determination) for assets and liabilities are in place.

The model of calculation of maturity gap of interest rate sensitive assets and interest rate sensitive liabilities is the base of assessment of interest rate risk, which allows estimating the effect of interest rate change on the Bank's expected net interest income. The interest rate risk in the Bank is assessed using duration model which indicates the economic value change of equity as a result of interest rate change taking into account the incompliance of maturities of attracted liabilities and allocated assets.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank manages currency risk using standard and VaR methodologies. Foreign currency rates are monitored on daily basis, based on which forecasting of foreign currency rates is performed at the end of the month for the following month. The Executive board has established limits for foreign currency positions.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**31 December 2016**			31 December 2015		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**+5**	**(484,077)**	**(484,077)**	+5	(461,615)	(461,615)
USD	**-5**	**484,077**	**484,077**	-5	461,615	461,615
EUR	**+8**	**(365,351)**	**(365,351)**	+8	(18,139)	(18,139)
EUR	**-8**	**365,351**	**365,351**	-8	18,139	18,139

The Bank's exposure to foreign currency exchange risk is as follows:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and cash equivalents	**40,604,307**	**22,282,396**	**328,452**	**63,215,155**
Amounts due from financial institutions	**3,467,670**	**2,022,851**	**3,041,756**	**8,532,277**
Derivative financial assets	**22,848**	**-**	**-**	**22,848**
Loans and advances to customers	**120,708,171**	**154,943,074**	**275,392**	**275,926,637**
Investments available for sale	**122,343**	**48,966**	**-**	**171,309**
Securities pledged under repurchase agreements	**35,173,146**	**493,966**	**-**	**35,667,112**
Other financial assets	**465,040**	**208,073**	**45,816**	**718,929**
	200,563,525	**179,999,326**	**3,691,416**	**384,254,267**
LIABILITIES				
Derivative financial liabilities	**42,456**	**-**	**-**	**42,456**
Amounts due to financial institutions	**71,729,271**	**10,158,806**	**939,379**	**82,827,456**
Financial liabilities held for trading	**21,489,072**	**-**	**-**	**21,489,072**
Amounts due to Government of the RA	**654,273**	**507,122**	**-**	**1,161,395**
Amounts due to customers	**80,739,426**	**177,043,312**	**2,338,324**	**260,121,062**
Other financial liabilities	**510,860**	**42,025**	**-**	**552,885**
	175,165,358	**187,751,265**	**3,277,703**	**366,194,326**
Net position as at 31 December 2016	**25,398,167**	**(7,751,939)**	**413,713**	**18,059,941**
Commitments and contingent liabilities as at 31 December 2016	**20,985,161**	**30,988,239**	**1,170,517**	**53,143,917**
Total financial assets	133,107,885	134,189,201	4,975,343	272,272,429
Total financial liabilities	112,589,322	143,421,498	5,202,086	261,212,906
Net position as at 31 December 2015	20,518,563	(9,232,297)	(226,743)	11,059,523
Commitments and contingent liabilities as at 31 December 2015	16,077,117	10,721,107	-	26,798,224

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

35.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency (see note 14). The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2016, %**	2015, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**17.10**	16.01
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**120.47**	76.98

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2016 based on contractual undiscounted repayment obligations. See note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	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	2016 Total
Financial liabilities						
Amounts due to financial institutions	**44,772,358**	**3,976,630**	**10,210,949**	**18,228,935**	**22,071,039**	**99,259,911**
Financial liabilities held for trading	**21,489,072**	**-**	**-**	**-**	**-**	**21,489,072**
Amounts due to Government of the RA	**374,492**	**55,681**	**267,137**	**588,618**	**775,921**	**2,061,849**
Amounts due to customers	**85,658,468**	**71,932,225**	**226,030,636**	**91,346,851**	**7,544,864**	**482,513,044**
Other financial liabilities	**552,885**	**-**	**-**	**-**	**-**	**552,885**
Total undiscounted non-derivative financial liabilities	**152,847,275**	**75,964,536**	**236,508,722**	**110,164,404**	**30,391,824**	**605,876,761**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**9,922,697**	**-**	**-**	**-**	**-**	**9,922,697**
Outflow	**(9,959,875)**	**-**	**-**	**-**	**-**	**(9,959,875)**
Credit risk related commitments	**1,371,802**	**4,028,041**	**15,118,318**	**23,294,120**	**9,331,636**	**53,143,917**
Total undiscounted financial liabilities as at 31 December 2015	93,892,940	32,486,556	104,085,988	40,408,934	9,640,880	280,515,298
Derivative financial liabilities						
Currency swap contracts						
Inflow	3,870,000	-	-	-	-	3,870,000
Outflow	(3,906,301)	-	-	-	-	(3,906,301)
Credit risk related commitments as at 31 December 2015	1,720,781	3,239,154	14,888,413	6,631,130	318,746	26,798,224

The Bank has attracted means in significant amounts from shareholders and related parties. Any significant repayment of these amounts may negatively affect the Bank's activity. The Management of the Bank is assured that the present level of financing will be maintained in the visible future and in the case of repayment of means it will be informed in advance, which will allow the Bank cash its liquid means and repay the debt.

35.4 Operational risk

For the management of operational risk the appropriate internal control mechanisms are implemented in the working processes, operations and functions of the Bank. In order to avoid operational risk the execution of operations at least by the principle of "two persons" in the key positions, definition of procedures in a written form, the clear separation of authorities of employees and written approval of work responsibilities are of high importance in the Bank. The latter's maintenance is also the requirement of the ISO 9001:2008 quality control international standard, therefore, in regulations of all structural and regional departments of the Bank the work description of each work place, employee rights, duties and responsibilities are clearly defined.

From the perspective of operational risks, proper provision of uninterrupted work of information technologies is given significant importance.

Personnel risk

Personnel risk is managed by the Human resources management department and Training centre. The HRM periodically performs observation of positions offered in RA banking system and relevant terms, and the Training centre organizes trainings aimed at development of professional knowledge of employees at the expense of internal and external resources.

Money laundering risk

Money laundering risk management is performed by internal observations department, which operates in compliance with requirements of internal legal acts of the Bank and money laundering legislation.

36 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2016 and 2015 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2016**	2015
Tier 1 capital	**28,212,125**	26,229,186
Tier 2 capital	**1,978,584**	45,925
Total regulatory capital	**30,190,709**	26,275,111
Risk-weighted assets	**249,821,516**	216,135,247
Capital adequacy ratio	**12.08%**	12.16%

The Bank has complied with all externally imposed capital requirements through the period.

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2014 the Board of RA Central Bank decided to determine the minimum size of total capital 30,000,000 thousand Armenian drams for the banks as of 1 January 2017 and after that period.