Ameriabank CJSC

Financial statements

for the year ended 31 December 2016
together with independent auditors' report

Contents

Կառուցելով
բարեկեցիկ աշխարհ

Independent auditors' report

To the Shareholders and Board of Directors of
Ameriabank Closed Joint-Stock Company

Opinion

We have audited the financial statements of Ameriabank Closed Joint-Stock Company (the Bank) which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of cash flows and statement of changes in equity 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Loan impairment allowance

Loan impairment allowance is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, expected net selling prices and expected realization period of the collateral. The use of different modelling techniques and assumptions could produce significantly different estimates of loan impairment allowance. This could have material effect on the financial results of the Bank.

Loan impairment allowance is a key audit matter due to both the significance of loans to customers (69.4% of total assets of the Bank as at 31 December 2016) and subjectivity of underlying assumptions for impairment estimation.

We assessed the design and operating effectiveness of the controls over collective impairment calculations. We tested the models and assumptions used to determine collective impairment and checked the formulas and inputs to the underlying models, such as net write-offs and overdue days of loans.

For impairment losses calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including valuation of underlying collateral and forecasts of future cash flows. We focused on significant corporate loans with impairment indicators as of the reporting date.

We also performed procedures regarding the financial statement disclosures (Note 21) of the Bank's exposure to credit risk and key assumptions and judgments of the management for estimating the loan impairment allowance.

Gain from cession

In 2016, the Bank recognized a gain from cession resulting from transfer of loans and other receivables in exchange for consideration receivable in arrears (Note 8). Management used its judgement in assessing derecognition criteria for transferred loans and other receivables and determining the fair value of consideration receivable.

The gain from cession is a key audit matter due to non-routine nature of the transactions and subjectivity of underlying management judgement.

We have performed audit procedures over the accuracy and valuation of the amounts recognized. Our audit procedures included assessing the derecognition criteria for the transferred loans and receivables and analyzing the key assumptions used, including recoverability of the consideration receivable.

Կառուցելով
բարեկեցիկ աշխարհ

Other information included in the Banks 2016 Annual report

Other information consists of the information included in the Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Board of Directors 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.

Board of Directors is 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.

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բարեկեցիկ աշխարհ

- 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 Board of Directors 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.

We also provide Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Eric Hayrapetyan.

CJSC Ernst & Young
Yerevan, Armenia

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August 2016)
Partner (Assurance)

Eric Hayrapetyan

23 March 2017

Statement of comprehensive income
for the year ended 31 December 2016

	Notes	2016 AMD'000	2015 AMD'000
Interest income	5	42,624,265	35,733,246
Interest expense	5	(27,749,228)	(20,979,260)
Net interest income		**14,875,037**	**14,753,986**
Fee and commission income	6	2,866,115	2,549,890
Fee and commission expense	7	(610,329)	(487,001)
Net fee and commission income		**2,255,786**	**2,062,889**
Gain from cession	8	1,096,824	–
Net gain/(loss) on financial instruments at fair value through profit or loss	9	1,055,909	(1,632,803)
Net foreign exchange gain	10	2,465,343	4,294,233
Net gain on available-for-sale financial assets		736,347	4,975
Other operating income	11	1,561,640	2,889,073
Other operating expenses	12	(1,461,489)	(1,281,982)
Operating income		**22,585,397**	**21,090,371**
Impairment losses	13	(5,434,401)	(6,155,514)
Personnel expenses		(5,675,290)	(5,744,675)
Other general administrative expenses	14	(3,746,410)	(3,167,044)
Profit before income tax		**7,729,296**	**6,023,138**
Income tax expense	15	(1,522,610)	(1,208,036)
Profit for the year		**6,206,686**	**4,815,102**
Other comprehensive income/(loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		1,435,355	(143,765)
- Net change in fair value transferred to profit or loss		(736,347)	(4,975)
- Income tax effect		(139,802)	29,746
Total items that are or may be reclassified subsequently to profit or loss		**559,206**	**(118,994)**
Other comprehensive income/(loss) for the year, net of income tax		**559,206**	**(118,994)**
Total comprehensive income for the year		**6,765,892**	**4,696,108**

The financial statements as set out on pages 5 to 58 were approved by the Management Board on 23 March 2017 and were signed on its behalf by:

Artak Hanesyan
General Director
Chairman of Management Board

Gohar Khachatryan
Chief Accountant

«ԱՄԵՐԻԱԲԱՆԿ» ՓԲԸ "AMERIABANK" CLOSED JOINT-STOCK COMPANY "АМЕРИАБАНК" ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ՀՀ ք. ԵՐԵՎԱՆ RA c. YEREVAN РА г. ЕРЕВАН *02502212*

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

Statement of financial position

as at 31 December 2016

	Notes	2016 AMD'000	2015 AMD'000
Assets			
Cash and cash equivalents	16	135,280,872	142,713,317
Financial instruments at fair value through profit or loss	17	3,130,071	465,303
Available-for-sale financial assets			
- Held by the Bank	18	12,408,292	4,963,052
- Pledged under sale and repurchase agreements	18	–	5,315,549
Loans and advances to banks	19	4,853,302	8,172,675
Amounts receivable under reverse repurchase agreements	20	6,446,797	5,980,477
Loans to customers	21	499,288,522	305,613,716
Receivables from letters of credit	22	7,707,303	8,730,005
Receivables from finance leases	23	2,040,022	2,099,464
Receivables from factoring	24	4,182,862	5,447,954
Held-to-maturity investments			
- Held by the Bank	25	36,255,642	4,673,844
- Pledged under sale and repurchase agreements	25	–	14,896,861
Property, equipment and intangible assets	26	3,651,239	3,195,703
Current tax asset		1,321,801	1,090,585
Other assets	27	2,796,698	2,515,183
Total assets		**719,363,423**	**515,873,688**
Liabilities			
Financial instruments at fair value through profit or loss	17	2,535,283	582,560
Deposits and balances from banks	28	71,834,882	21,214,531
Amounts payable under repurchase agreements	29	–	19,004,763
Current accounts and deposits from customers	30	414,608,686	294,012,140
Debt securities issued	31	18,124,500	–
Other borrowed funds	32	102,735,039	78,383,861
Subordinated borrowings	32	40,811,255	39,721,324
Deferred tax liability	15	1,442,872	479,244
Other liabilities	33	2,873,138	3,158,103
Total liabilities		**654,965,655**	**456,556,526**
Equity			
Share capital	34	32,087,360	32,087,360
Share premium		7,755,179	7,755,179
Revaluation reserve for available-for-sale financial assets		307,897	(251,309)
Retained earnings		24,247,332	19,725,932
Total equity		**64,397,768**	**59,317,162**
Total liabilities and equity		**719,363,423**	**515,873,688**

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

Statement of cash flows

for the year ended 31 December 2016

	Notes	2016 AMD'000	2015 AMD'000
Cash flows from operating activities			
Interest receipts		40,931,425	33,244,747
Interest payments		(23,817,560)	(20,095,082)
Fee and commission receipts		2,866,115	2,549,890
Fee and commission payments		(610,329)	(487,001)
Net receipts from financial assets at fair value through profit and loss		676,407	301,737
Net receipts from foreign exchange transactions		2,724,237	2,465,955
Other operating expenses payments		(1,461,489)	(1,281,982)
Other operating income receipts		1,427,995	2,674,847
Salaries and other payments to employees		(5,754,347)	(5,740,169)
Other general administrative expenses payments		(2,967,916)	(2,411,669)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		(2,665,582)	(462,216)
Loans and advances to banks		2,754,468	(6,978,728)
Amounts receivable under reverse repurchase agreements		(464,617)	(4,439,653)
Loans to customers		(196,032,198)	(25,590,770)
Receivables from letters of credit		628,842	3,834,214
Receivables from finance leases		252,241	986,315
Receivables from factoring		1,244,660	(1,067,257)
Other assets		(704,138)	(196,398)
Increase/(decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		2,330,730	(2,032,902)
Deposits and balances from banks		50,005,742	(8,602,708)
Amounts payable under repurchase agreements		(18,999,995)	(2,278,094)
Current accounts and deposits from customers		119,077,450	84,275,500
Other liabilities		(239,818)	352,964
Net cash (used in)/from operating activities before income tax paid		**(28,797,677)**	**49,021,540**
Income tax paid		(930,000)	(2,350,000)
Cash flows from operations		**(29,727,677)**	**46,671,540**
Cash flows from investing activities			
Purchases of property and equipment and intangible assets		(1,373,907)	(1,120,887)
Proceeds from sale of property and equipment and intangible assets		145,298	4,055
Purchases of available-for-sale financial assets		(15,698,772)	(15,360,466)
Proceeds from available-for-sale financial assets		15,036,412	14,490,964
Purchases of held-to-maturity investments		(38,114,289)	(9,819,025)
Proceeds from held-to-maturity investments		21,633,698	3,647,400
Cash flows used in investing activities		**(18,371,560)**	**(8,157,959)**
Cash flows from financing activities			
Proceeds from issue of share capital		–	14,366,288
Dividends paid		(1,685,286)	(2,100,000)
Receipt of subordinated borrowing		–	24,081,500
Receipts of other borrowed funds		77,618,450	41,496,387
Repayment of other borrowed funds		(53,479,054)	(42,363,568)
Proceeds from debt securities issued		17,815,044	–
Cash flows from financing activities		**40,269,154**	**35,480,607**
Net (decrease)/increase in cash and cash equivalents		**(7,830,083)**	**73,994,188**
Effect of changes in exchange rates on cash and cash equivalents		397,638	603,453
Cash and cash equivalents as at the beginning of the year		**142,713,317**	**68,115,676**
Cash and cash equivalents as at the end of the year	16	**135,280,872**	**142,713,317**

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

Statement of changes in equity

for the year ended 31 December 2016

AMD'000	*Notes*	*Share capital*	*Share premium*	*Revaluation reserve for available-for-sale financial assets*	*Retained earnings*	*Total equity*
Balance as at 1 January 2015		**25,447,680**	**28,571**	**(132,315)**	**17,010,830**	**42,354,766**
Total comprehensive income						
Profit for the year		–	–	–	4,815,102	**4,815,102**
Other comprehensive income for the year		–	–	(118,994)	–	**(118,994)**
Total comprehensive income for the year		**–**	**–**	**(118,994)**	**4,815,102**	**4,696,108**
Transactions with owners, recorded directly in equity						
Issue of share capital		6,639,680	7,726,608	–	–	**14,366,288**
Dividends	34	–	–	–	(2,100,000)	**(2,100,000)**
Total transactions with owners		**6,639,680**	**7,726,608**	**–**	**(2,100,000)**	**12,266,288**
Balance as at 31 December 2015		**32,087,360**	**7,755,179**	**(251,309)**	**19,725,932**	**59,317,162**
Balance as at 1 January 2016		**32,087,360**	**7,755,179**	**(251,309)**	**19,725,932**	**59,317,162**
Total comprehensive income						
Profit for the year		–	–	–	6,206,686	**6,206,686**
Other comprehensive income for the year		–	–	559,206	–	**559,206**
Total comprehensive income for the year		**–**	**–**	**559,206**	**6,206,686**	**6,765,892**
Transactions with owners, recorded directly in equity						
Dividends	34	–	–	–	(1,685,286)	**(1,685,286)**
Total transactions with owners		**–**	**–**	**–**	**(1,685,286)**	**(1,685,286)**
Balance as at 31 December 2016		**32,087,360**	**7,755,179**	**307,897**	**24,247,332**	**64,397,768**

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

1. Background

(a) Organization and operations

Ameriabank CJSC (formerly Armimpexbank CJSC) (the Bank) was established on 8 December 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased its share in the Bank to 100%. On 23 December 2015 European Bank for Reconstruction and Development (EBRD) purchased in full additionally issued shares of the Bank for AMD 14,366,288 thousand.

On 21 December 2016 ESPS Holding Limited purchased 13.5% of Bank shares from Ameria Group (CY).

The shareholders of the Bank as at 31 December 2016 are Ameria Group (CY) (65.8%), EBRD (20.7%) and ESPS Holding Limited (13.5%).

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

The Bank has 12 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 9 Grigor Lusavorich Street, Yerevan 0015, Republic of Armenia. The average number of the Bank's employees for 2016 was 597 (2015: 598).

Related party transactions are detailed in note 40.

(b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Despite still turbulent global economic environment, Armenia's GDP growth was still positive. The country recorded significant improvement in trade balance with exports growing 20% year over year while imports showed growth as well. As a result, current account balance improved. Obviously, stabilization in Eurasian Economic Union (especially during the second half of the year) had its positive impact on trade volume and inflow of remittances.

Management believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The financial statements are presented in Armenian Drams (AMD), which is the Bank's functional and presentation currency. Financial information presented in AMD is rounded to the nearest thousand. The official CBA exchange rates at 31 December 2016 and 31 December 2015, were 483.94 AMD and 483.75 AMD to 1 USD, and 512.2 AMD and 528.69 AMD to 1 EUR, respectively.

(d) Use of estimates and judgments

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

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

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 21 “Loans to customers”.

(e) Changes in accounting policies and presentation

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. The amendment does not have impact on the Bank.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment does not have impact on the Bank.

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Foreign currency

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

3. Significant accounting policies (continued)

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

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

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

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

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity.

Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortized cost

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

(v) Fair value measurement principles

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

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

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

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

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(x) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

Leasehold improvements	5-10 years
Computers and communication equipment	1 to 7 years
Fixtures and fittings	3 to 10 years
Motor vehicles	7 years

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

(e) Intangible assets

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(f) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(g) Impairment

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

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

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

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3. Significant accounting policies (continued)

(g) Impairment (continued)

(i) Financial assets carried at amortized cost

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

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

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

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

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

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

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

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

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

3. Significant accounting policies (continued)

(g) Impairment (continued)

(iv) Non-financial assets

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

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

(h) Provisions

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

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

(j) Credit related commitments

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

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

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

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

Loan commitments are not recognized, except for the followings:

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

3. Significant accounting policies (continued)

(k) Share capital

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

(i) Share premium

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

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared and such decision is effective according to legislation of the Republic of Armenia.

(l) Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Trading and Investment Banking (IB).

(m) Taxation

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

(n) Income and expense recognition

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

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

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

3. Significant accounting policies (continued)

(n) Income and expense recognition (continued)

Dividend income is recognized in profit or loss on the date that the dividend is declared.

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

(o) Leases

Finance − Bank as lessee

The Bank recognizes finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

Finance − Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. 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.

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 recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating − Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(p) New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

3. Significant accounting policies (continued)

(p) New standards and interpretations not yet adopted (continued)

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date − 1 January 2018 − would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact. The Bank has started the process of transition to IFRS 9 and is expected to finalize it by the end of 2017.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases − IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

3. Significant accounting policies (continued)

(p) New standards and interpretations not yet adopted (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:
(i) The beginning of the reporting period in which the entity first applies the interpretation, or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The amendment does not have impact on the Bank.

4. Segment information

For management purposes, the Bank is organised into three operating segments based on products and services as follows:

Retail banking	Principally handling individual and small and micro legal entity customers deposits, and providing consumer loans, overdrafts, credit cards facilities and small and micro loans.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Trading and Investment banking (IB)	Treasury and finance, investment banking and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes is managed on a profit before income tax basis and is allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

2016

Revenue	***Retail banking AMD'000***	***Corporate banking AMD'000***	***Trading and IB AMD'000***	***Total AMD'000***
Net interest income (expense)	(2,052,253)	13,801,679	3,125,611	**14,875,037**
Net non-interest income	1,470,570	3,058,723	3,181,067	**7,710,360**
Inter-segment revenue (expense)	7,414,212	(5,256,654)	(2,157,558)	–
Operating profit	**6,832,529**	**11,603,748**	**4,149,120**	**22,585,397**
Impairment losses	(749,239)	(4,685,162)	–	**(5,434,401)**
Depreciation and amortization	(633,600)	(85,826)	(59,068)	**(778,494)**
Personnel and other general administrative expenses	(4,941,067)	(2,427,731)	(1,274,408)	**(8,643,206)**
Profit before income tax	**508,623**	**4,405,029**	**2,815,644**	**7,729,296**
Income tax expense	(100,195)	(867,756)	(554,659)	**(1,522,610)**
Profit for the year	**408,428**	**3,537,273**	**2,260,985**	**6,206,686**

2016

	Retail banking AMD'000	***Corporate banking AMD'000***	***Trading and IB AMD'000***	***Total AMD'000***
Interest bearing financial assets	60,254,233	461,773,974	58,613,279	**580,641,486**
Interest bearing financial liabilities	172,461,524	472,310,438	3,108,720	**647,880,682**

Interest bearing assets include available-for-sale financial assets, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans to customers, gross receivables from letters of credit, gross receivables from finance leases, gross receivables from factoring and held-to-maturity investments.

4. Segment information (continued)

Interest bearing financial liabilities include deposits and balances from banks (excluding Vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

2015

Revenue	***Retail banking AMD'000***	***Corporate banking AMD'000***	***Trading and IB AMD'000***	***Total AMD'000***
Net interest income (expense)	(1,394,716)	15,399,792	748,910	**14,753,986**
Net non-interest income	1,371,764	3,145,255	1,819,366	**6,336,385**
Inter-segment revenue (expense)	6,313,667	(6,115,493)	(198,174)	**–**
Operating profit	**6,290,715**	**12,429,554**	**2,370,102**	**21,090,371**
Impairment losses	(561,324)	(5,594,190)	–	**(6,155,514)**
Depreciation and amortization	(630,674)	(73,600)	(48,937)	**(753,211)**
Personnel and other general administrative expenses	(4,743,775)	(2,116,439)	(1,298,294)	**(8,158,508)**
Profit before income tax	**354,942**	**4,645,325**	**1,022,871**	**6,023,138**
Income tax expense	(223,734)	(768,903)	(215,399)	**(1,208,036)**
Profit for the year	**131,208**	**3,876,422**	**807,472**	**4,815,102**

2015

	Retail banking	***Corporate banking***	***Trading and IB***	***Total***
Interest bearing financial assets	47,567,898	280,863,474	42,826,715	**371,258,087**
Interest bearing financial liabilities	144,821,547	288,274,312	19,004,763	**452,100,622**

Interest bearing assets include available-for-sale financial assets, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans to customers, gross receivables from letters of credit, gross receivables from finance leases, gross receivables from factoring and held-to-maturity investments.

Interest bearing financial liabilities include deposits and balances from banks (excluding Vostro accounts), amounts payable under repurchase agreements, current accounts and deposits from customers, debt securities issued, other borrowed funds, subordinated borrowings.

Geographic information

The Bank's operations are primarily concentrated in Armenia. The Bank has no non-current assets other than financial instrument outside Armenia.

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5. Net interest income

	2016 AMD'000	*2015 AMD'000*
Interest income		
Loans to customers	36,883,039	30,848,124
Held-to-maturity investments	1,853,537	1,536,660
Available-for-sale financial assets	1,228,587	940,327
Receivables from factoring	768,153	518,646
Receivables from letters of credit	752,499	818,643
Amounts receivable under reverse repurchase agreements	611,213	349,573
Loans and advances to banks	265,806	270,333
Other	44,421	137,962
	42,407,255	**35,420,268**
Receivables from finance leases	217,010	312,978
	42,624,265	**35,733,246**
Interest expense		
Current accounts and deposits from customers	15,765,834	10,822,786
Other borrowed funds and subordinated borrowings	8,766,471	6,758,802
Deposits and balances from banks	1,672,840	581,942
Debt securities issued	552,984	–
Amounts payable under repurchase agreements	520,236	2,122,277
Payables under letters of credit	445,940	648,020
Other	24,923	45,433
	27,749,228	**20,979,260**
Net interest income	**14,875,037**	**14,753,986**

6. Fee and commission income

	2016 AMD'000	*2015 AMD'000*
Plastic card maintenance	1,274,114	1,094,801
Money transfers	519,754	402,872
Cash withdrawal, account service and distance system services	465,820	406,670
Guarantee and letter of credit issuance	319,171	357,862
Brokerage services	184,142	207,388
Settlement operations	54,782	41,521
Other	48,332	38,776
	2,866,115	**2,549,890**

7. Fee and commission expense

	2016 AMD'000	*2015 AMD'000*
Plastic card maintenance	407,321	289,040
Money transfers	104,680	78,794
Guarantee and letter of credit issuance	71,176	86,114
Other	27,152	33,053
	610,329	**487,001**

8. Gain from cession

During 2016, the Bank entered into loan cession agreements with four counterparties and transferred to them loans and other receivables (including fully written-off balances) due from ten borrowers in total gross nominal amount of AMD 2,130,029 thousand for consideration receivable in arrears with fair value of AMD 1,801,635 thousand. The management concluded that the Bank had transferred all risks and regards from the transferred loans and receivables and recognized the difference between carrying amount of these loans and receivables (AMD 704,811 thousand) and total fair value of consideration receivable as of the cession agreement dates as gain from cession in amount of AMD 1,096,824 thousand. As of the date of issue of these financial statements AMD 393,135 thousand from consideration receivable has been repaid.

9. Net gain/(loss) on financial instruments at fair value through profit or loss

Net gain on financial instruments at fair value through profit or loss in amount of AMD 1,055,909 thousand (2015: net loss in amount of AMD 1,632,803 thousand) includes revaluation of currency and interest rate derivative instruments, which are used for economic hedging of open currency and interest rate positions and some lending transactions of the Bank.

10. Net foreign exchange gain

	2016 AMD'000	*2015 AMD'000*
Net gain on spot transactions	2,724,237	2,465,955
Net (loss)/gain from revaluation of financial assets and liabilities	(258,894)	1,828,278
	2,465,343	**4,294,233**

11. Other operating income

	2016 AMD'000	*2015 AMD'000*
Income from fines and penalties	1,337,303	2,709,524
Net income from disposal of fixed assets	–	2,402
Other income	224,337	177,147
	1,561,640	**2,889,073**

12. Other operating expenses

	2016 AMD'000	*2015 AMD'000*
Payment system expenses	359,890	289,747
Guarantee payments to Armenian Deposit Guarantee Fund	311,351	229,334
Software maintenance	250,323	219,278
Fees for terminal usage	125,533	127,737
Agent fee	72,267	–
Financial system mediator	51,380	40,271
Encashment	48,134	50,920
Monitoring services	47,800	210,682
Expenses on fines and penalties	251	1,022
Other expenses	194,560	112,991
	1,461,489	**1,281,982**

13. Impairment losses

	2016 AMD'000	*2015 AMD'000*
Loans to customers	5,084,493	4,413,869
Other impairments	349,908	1,741,645
	5,434,401	**6,155,514**

Other impairments include impairment of receivables from letters of credit, receivables from finance leases, receivables from factoring and other assets.

14. Other general administrative expenses

	2016 AMD'000	2015 AMD'000
Operating lease expense	1,019,034	885,110
Depreciation and amortization	778,494	753,211
Advertising and marketing	631,039	426,588
Repairs and maintenance	258,883	211,247
Charity and sponsorship	118,550	138,614
Security	113,331	67,075
Communications and information services	102,925	92,922
Professional services	98,849	62,666
Electricity and utilities	87,427	85,183
Travel expenses	87,173	64,092
Training and education	33,370	26,823
Taxes other than on payroll and income	32,081	41,624
Insurance	29,501	26,092
Office supplies	28,421	27,905
Representation expenses	20,532	24,497
Other personnel expenses	163,086	143,628
Other	143,714	89,767
	3,746,410	**3,167,044**

15. Income tax expense

	2016 AMD'000	2015 AMD'000
Current tax expense		
Current tax charge	765,182	556,429
Adjustments in respect of current income tax of previous year	(66,398)	–
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	823,826	651,607
Total income tax expense	**1,522,610**	**1,208,036**

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

Reconciliation of effective tax rate

	2016 AMD'000	%	2015 AMD'000	%
Profit before tax	**7,729,296**		**6,023,138**	
Income tax at the applicable tax rate	1,545,859	20%	1,204,628	20%
Prior period income tax correction	(66,398)		–	
Net gain from revaluation of financial assets and liabilities and net loss on financial instruments at fair value through profit or loss (non-taxable part)	(17,932)		23,338	
(Non-taxable income) / Non-deductible expenses	61,081		(19,930)	
	1,522,610		**1,208,036**	

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2016 and 2015. The deductible temporary differences do not expire under current tax legislation.

15. Income tax expense (continued)

Reconciliation of effective tax rate (continued)

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows:

2016 *AMD'000*	*Balance* *1 January 2016*	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*Balance 31 December 2016*
Financial instruments at fair value through profit or loss	20,694	(123,568)	–	(102,874)
Available-for-sale financial assets	62,825	–	(139,802)	(76,977)
Allowance for other receivables and other provisions	65,746	(263,410)	–	(197,664)
Loans to customers	(1,010,351)	(325,846)	–	(1,336,197)
Property and equipment	14,379	(59,531)	–	(45,152)
Other assets	13,104	(2,604)	–	10,500
Other liabilities	354,359	7,875	–	362,234
Other borrowed funds	–	(56,742)		(56,742)
	(479,244)	**(823,826)**	**(139,802)**	**(1,442,872)**

2015 *AMD'000*	*Balance* *1 January 2015*	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*Balance 31 December 2015*
Financial instruments at fair value through profit or loss	32,265	(11,571)	–	20,694
Available-for-sale financial assets	33,079	–	29,746	62,825
Allowance for other receivables and other provisions	(110,262)	176,008	–	65,746
Loans to customers	(237,650)	(772,701)	–	(1,010,351)
Property and equipment	60,865	(46,486)	–	14,379
Other assets	13,104	–	–	13,104
Other liabilities	351,216	3,143	–	354,359
	142,617	**(651,607)**	**29,746**	**(479,244)**

16. Cash and cash equivalents

	2016 *AMD'000*	*2015* *AMD'000*
Cash on hand	12,826,023	15,843,126
Nostro accounts with the CBA, including obligatory reserves	104,878,940	105,555,056
Nostro accounts with other banks		
- rated AA- to AA+	17,767	13,047
- rated A- to A+	10,125,848	14,319,969
- rated from BB- to BBB+	7,210,640	6,913,069
- not rated	221,654	69,050
Total nostro accounts with other banks	**17,575,909**	**21,315,135**
Total cash and cash equivalents	**135,280,872**	**142,713,317**

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 18% (2015: 20%) of the amounts attracted in foreign currency. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation, however, if the Bank fails to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams, and minimum average amount of reserve for a two-week period for amounts attracted in foreign currency, the sanctions may apply.

As of 31 December 2016 included in Nostro accounts with the CBA is the amount of obligatory reserve of AMD 48,969,250 thousand (2015: AMD 55,271,789 thousand).

16. Cash and cash equivalents (continued)

The above ratings of correspondent Banks are per Fitch rating agency.

As at 31 December 2016 the Bank has placement with one bank (2015: one), whose balances exceed 10% of the Bank's equity. The gross value of these balances as at 31 December 2016 is AMD 7,041,151 thousand (2015: AMD 7,672,871 thousand).

As at 31 December 2016 and 31 December 2015 the balances with the Central Bank of Armenia exceed 10% of the Bank's equity.

17. Financial instruments at fair value through profit or loss

	2016 AMD'000	*2015 AMD'000*
Assets		
Derivative financial instruments		
Interest rate swaps	40,590	–
Currency swaps	3,089,481	465,303
	3,130,071	**465,303**
Liabilities		
Derivative financial instruments		
Interest rate swaps	–	103,468
Currency swaps	2,535,283	476,658
Other contracts	–	2,434
	2,535,283	**582,560**

Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2016 and 2015 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss, as appropriate.

	Fair value		*Notional amount*	
	2016 AMD'000	*2015 AMD'000*	*2016 AMD'000*	*2015 AMD'000*
Pay fixed in USD, receive floating in USD	40,590	(103,468)	11,218,609	10,224,716

As at 31 December 2016, the Bank has three interest rate swap contracts with USD 15,000,000 initial notional amount each and one interest rate swap contract with USD 10,000,000 initial notional amount. Under these contracts the Bank pays 2.1350%, 1.3125%, 0.9450% and 1.5850% fixed rates, and receives 6-month USD-LIBOR-BBA (British Bankers' Association) floating rates for each contract, respectively. The contractual maturity of outstanding interest rate swap contracts is 2018-2022.

Currency swaps

As at 31 December 2016 the Bank has 19 (2015: 14) currency swap agreements with eight (2015: four) counterparties in AMD and USD. As at December 31 2016, AMD equivalent of total notional amount of these agreements comprises AMD 161,717,608 thousand (2015: AMD 56,388,061 thousand).

18. Available-for-sale financial assets

	2016 AMD'000	*2015 AMD'000*
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	7,174,650	704,171
Eurobonds of the Republic of Armenia	–	3,190,731
Eurobonds of other countries	1,066,963	–
- Corporate bonds		
International Financial Institutions	–	818,813
Corporate bonds of foreign companies	3,418,111	–
Corporate bonds of Armenian companies	642,110	142,879
Equity investments		
- Unquoted equity securities	106,458	106,458
	12,408,292	**4,963,052**
Pledged under sale and repurchase agreements with the CBA		
Government bonds of the Republic of Armenia	–	5,315,549
	–	**5,315,549**

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

Name	*Country of incorporation*	*Main activity*	*% Controlled 2016*	*% Controlled 2015*	*2016 AMD'000*	*2015 AMD'000*
Artsakh bank CJSC	Republic of Armenia	Banking	1.06%	1.06%	69,250	69,250
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	36,429
SWIFT	Belgium	Money transfer	0.00%	0.00%	779	779
					106,458	**106,458**

(a) Investments without a determinable fair value

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

19. Loans and advances to banks

	2016 AMD'000	*2015 AMD'000*
Due from the CBA		
Credit card settlement deposit with the CBA	1,220,000	1,020,000
Loans and deposits with other banks		
Armenian banks	2,500,839	6,939,025
OECD banks	1,078,322	162,258
Foreign other banks	54,141	51,392
Total loans and deposits with other banks	**3,633,302**	**7,152,675**
Total loans and advances to banks	**4,853,302**	**8,172,675**

No loans and advances to banks are impaired or past due.

Included in loans and deposits with OECD banks and other foreign banks AMD 117,053 thousand (2015: AMD 167,068 thousand) represents deposits pledged for letters of credit, guarantees and credit cards.

Concentration of loans and advances to banks

As at 31 December 2016 the Bank does not have a single correspondent bank (2015: no bank), which balances exceed 10% of the Bank's equity.

20. Amounts receivable under reverse repurchase agreements

	2016 AMD'000	*2015 AMD'000*
Amounts receivable from medium and small Armenian financial institutions	6,446,797	5,980,477
	6,446,797	**5,980,477**

Collateral

As at 31 December 2016 amounts receivable under reverse repurchase agreements were collateralized by government and non-government securities with fair value of AMD 6,814,064 thousand (2015: AMD 6,332,266 thousand).

21. Loans to customers

	2016 AMD'000	*2015 AMD'000*
Loans to legal entities		
Loans to large companies	384,267,796	216,842,942
Loans to small and medium size companies	77,010,316	54,039,424
Total loans to legal entities	**461,278,112**	**270,882,366**
Loans to individuals		
Mortgage loans	20,051,103	17,390,325
Credit cards	18,403,846	14,694,121
Consumer loans	5,454,847	2,596,287
Auto loans	2,043,068	2,904,684
Business loans to individuals	1,043,918	2,386,816
Total loans to individuals	**46,996,782**	**39,972,233**
Gross loans to customers	**508,274,894**	**310,854,599**
Impairment allowance	(8,986,372)	(5,240,883)
Net loans to customers	**499,288,522**	**305,613,716**

In the table below loans to legal entities of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

	Neither past due nor impaired			*Past due but*	*Individually*	
	High grade 2016	*Standard grade 2016*	*Sub-standard grade 2016*	*not impaired 2016*	*impaired 2016*	*Total 2016*
Net loans to legal entities	145,465,084	291,807,706	2,052,570	2,871,395	10,591,029	**452,787,784**

	Neither past due nor impaired			*Past due but*	*Individually*	
	High grade 2015	*Standard grade 2015*	*Sub-standard Grade 2015*	*not impaired 2015*	*impaired 2015*	*Total 2015*
Net loans to legal entities	39,200,877	209,410,516	–	12,450,923	4,912,877	**265,975,193**

As at 31 December 2016 the loans to legal entities include loans provided to related parties amounting to AMD 72,955,885 (2015: AMD 27,736,978 thousand) thousand which has been collateralized with deposits amounting to AMD 73,171,153 thousand (2015: AMD 28,081,049 thousand).

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

	Loans to legal entities AMD'000	*Loans to individuals AMD'000*	*Total AMD'000*
Balance at the beginning of the year	**4,907,173**	**333,710**	**5,240,883**
Net charge	4,505,096	579,397	**5,084,493**
Recovery of loans previously written off	188,461	179,374	**367,835**
Write-offs	(894,856)	(596,437)	**(1,491,293)**
Disposal of loans	(215,546)	–	**(215,546)**
Balance at the end of the year	**8,490,328**	**496,044**	**8,986,372**

21. Loans to customers (continued)

Movements in the loan impairment allowance by classes of loans to customers for the 2015 are as follows:

	Loans to legal entities AMD'000	*Loans to individuals AMD'000*	*Total AMD'000*
Balance at the beginning of the year	**2,224,023**	**510,640**	**2,734,663**
Net charge	4,195,925	217,944	**4,413,869**
Recovery of loans previously written off	806,847	197,689	**1,004,536**
Write-offs	(2,158,436)	(592,563)	**(2,750,999)**
Disposal of loans	(161,186)	–	**(161,186)**
Balance at the end of the year	**4,907,173**	**333,710**	**5,240,883**

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to legal entities				
Loans to large companies				
Loans without individual signs of impairment:				
- not overdue	371,417,729	2,417,464	369,000,265	0.65%
Total loans without individual signs of impairment	**371,417,729**	**2,417,464**	**369,000,265**	**0.65%**
Loans with individual signs of impairment				
Not impaired loans:				
- not overdue	1,739,322	18,263	1,721,059	1.05%
- overdue more than 270 days	742,450	7,795	734,655	1.05%
Impaired loans:				
- not overdue	4,162,141	277,347	3,884,794	6.66%
- overdue more than 181 days and less than 270 days	755,553	343,743	411,810	45.50%
- overdue more than 270 days	5,450,600	2,611,438	2,839,162	47.91%
Total loans with individual signs of impairment	**12,850,066**	**3,258,586**	**9,591,480**	**25.36%**
Total loans to large companies	**384,267,795**	**5,676,050**	**378,591,745**	**1.48%**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	69,309,563	1,037,038	68,272,525	1.50%
- overdue less than 30 days	567,198	8,734	558,464	1.54%
- overdue more than 31 days and less than 90 days	769,187	11,846	757,341	1.54%
- overdue more than 91 days and less than 180 days	3,793	58	3,735	1.53%
Total loans without individual signs of impairment	**70,649,741**	**1,057,676**	**69,592,065**	**1.50%**
Loans with individual signs of impairment				
Not impaired loans:				
- not overdue	336,642	5,131	331,511	1.52%
- overdue more than 31 days and less than 90 days	227,553	3,504	224,049	1.54%
- overdue more than 91 days and less than 180 days	85,930	1,377	84,553	1.60%
- overdue more than 181 days and less than 270 days	17,237	265	16,972	1.54%
- overdue more than 270 days	499,315	7,689	491,626	1.54%
Impaired loans:				
- not overdue	544,082	193,350	350,732	35.54%
- overdue more than 31 days and less than 90 days	29,384	9,253	20,131	31.49%
- overdue more than 91 days and less than 180 days	1,029,680	219,879	809,801	21.35%
- overdue more than 181 days and less than 270 days	564,277	129,807	434,470	23.00%
- overdue more than 270 days	3,026,476	1,186,347	1,840,129	39.20%
Total loans with individual signs of impairment	**6,360,576**	**1,756,602**	**4,603,974**	**27.62%**
Total loans to small and medium size companies	**77,010,317**	**2,814,278**	**74,196,039**	**3.65%**
Total loans to legal entities	**461,278,112**	**8,490,328**	**452,787,784**	**1.84%**

21. Loans to customers (continued)

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

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to individuals				
Mortgage loans				
- not overdue	19,186,161	48,445	19,137,716	0.25%
- overdue less than 30 days	83,002	7,045	75,957	8.49%
- 31-90 days overdue	80,329	15,462	64,867	19.25%
- 91-180 days overdue	410,846	29,403	381,443	7.16%
- 181-270 days overdue	21,469	1,372	20,097	6.39%
- overdue more than 270 days	269,296	74,489	194,807	27.66%
Total mortgage loans	**20,051,103**	**176,216**	**19,874,887**	**0.88%**
Credit cards				
- not overdue	16,655,030	35,703	16,619,327	0.21%
- overdue less than 30 days	59,964	9,041	50,923	15.08%
- 31-90 days overdue	102,483	26,067	76,416	25.44%
- 91-180 days overdue	1,314,542	29,524	1,285,018	2.25%
- 181-270 days overdue	133,233	60,807	72,426	45.64%
- overdue more than 270 days	138,594	41,494	97,100	29.94%
Total credit cards	**18,403,846**	**202,636**	**18,201,210**	**1.10%**
Business loans				
- not overdue	702,500	14,050	688,450	2.00%
- 181-270 days overdue	336,424	6,728	329,696	2.00%
- overdue more than 270 days	4,994	1,240	3,754	24.83%
Total business loans	**1,043,918**	**22,018**	**1,021,900**	**2.11%**
Auto loans				
- not overdue	1,975,608	3,951	1,971,657	0.20%
- overdue less than 30 days	27,600	1,370	26,230	4.96%
- 31-90 days overdue	23,413	1,162	22,251	4.96%
- 91-180 days overdue	1,167	2	1,165	0.17%
- 181-270 days overdue	15,280	1,420	13,860	9.29%
Total auto loans	**2,043,068**	**7,905**	**2,035,163**	**0.39%**
Consumer loans				
- not overdue	5,191,378	16,367	5,175,011	0.32%
- overdue less than 30 days	14,058	1,799	12,259	12.80%
- 31-90 days overdue	1,240	159	1,081	12.82%
- 91-180 days overdue	3,711	664	3,047	17.89%
- 181-270 days overdue	48,441	9,791	38,650	20.21%
- overdue more than 270 days	196,019	58,489	137,530	29.84%
Total consumer loans	**5,454,847**	**87,269**	**5,367,578**	**1.60%**
Total loans to individuals	**46,996,782**	**496,044**	**46,500,738**	**1.06%**
Total loans to customers	**508,274,894**	**8,986,372**	**499,288,522**	**1.77%**

As at 31 December 2016 credit card loans 91-180 days overdue include two loans with individual signs of impairment with gross balance in amount of AMD 1,270,910 thousand, allowance for which was assessed individually (Impairment allowance - AMD 2,541 thousand).

21. Loans to customers (continued)

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

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

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to legal entities				
Loans to large companies				
Loans without individual signs of impairment:				
- not overdue	201,993,352	1,636,040	200,357,312	0.81%
- overdue less than 30 days	4,035,029	40,350	3,994,679	1.00%
Total loans without individual signs of impairment	**206,028,381**	**1,676,390**	**204,351,991**	**0.81%**
Loans with individual signs of impairment				
Not impaired loans:				
- overdue more than 90 days and less than 180 days	1,150,296	11,503	1,138,793	1.00%
- overdue more than 180 days and less than 270 days	108,646	1,086	107,560	1.00%
- overdue more than 270 days	3,963,596	39,636	3,923,960	1.00%
Impaired loans:				
- overdue more than 180 days and less than 270 days	1,428,738	439,599	989,139	30.77%
- overdue more than 270 days	4,163,285	1,464,683	2,698,602	35.18%
Total loans with individual signs of impairment	**10,814,561**	**1,956,507**	**8,858,054**	**18.09%**
Total loans to large companies	**216,842,942**	**3,632,897**	**213,210,045**	**1.68%**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	48,692,336	438,255	48,254,081	0.90%
- overdue less than 30 days	632,931	5,696	627,235	0.90%
- overdue more than 30 days and less than 90 days	1,605,672	14,451	1,591,221	0.90%
Total loans without individual signs of impairment	**50,930,939**	**458,402**	**50,472,537**	**0.90%**
Loans with individual signs of impairment				
Not impaired loans:				
- overdue more than 90 days and less than 180 days	885,654	7,971	877,683	0.90%
- overdue more than 180 days and less than 270 days	14,472	130	14,342	0.90%
- overdue more than 270 days	177,043	1,593	175,450	0.90%
Impaired loans:				
- overdue less than 30 days	210,191	119,388	90,803	56.80%
- overdue more than 30 days and less than 90 days	103,421	68,671	34,750	66.40%
- overdue more than 90 days and less than 180 days	500,011	237,226	262,785	47.44%
- overdue more than 180 days and less than 270 days	152,770	65,697	87,073	43.00%
- overdue more than 270 days	1,064,923	315,198	749,725	29.60%
Total loans with individual signs of impairment	**3,108,485**	**815,874**	**2,292,611**	**26.25%**
Total loans to small and medium size companies	**54,039,424**	**1,274,276**	**52,765,148**	**2.36%**
Total loans to legal entities	**270,882,366**	**4,907,173**	**265,975,193**	**1.81%**

21. Loans to customers (continued)

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

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to individuals				
Mortgage loans				
- not overdue	16,914,866	33,830	16,881,036	0.20%
- overdue less than 30 days	110,517	4,432	106,085	4.01%
- 31-90 days overdue	50,502	2,025	48,477	4.01%
- 91-180 days overdue	257,282	43,490	213,792	16.90%
- overdue more than 270 days	57,158	10,721	46,437	18.76%
Total mortgage loans	**17,390,325**	**94,498**	**17,295,827**	**0.54%**
Credit cards				
- not overdue	13,187,072	27,246	13,159,826	0.21%
- overdue less than 30 days	144,801	23,569	121,232	16.28%
- 31-90 days overdue	51,646	12,068	39,578	23.37%
- 91-180 days overdue	81,472	23,595	57,877	28.96%
- 181-270 days overdue	78,719	30,460	48,259	38.69%
- overdue more than 270 days	1,150,411	50,760	1,099,651	4.41%
Total credit cards	**14,694,121**	**167,698**	**14,526,423**	**1.14%**
Business loans				
- not overdue	2,051,135	34,869	2,016,266	1.70%
- overdue less than 30 days	328,989	5,593	323,396	1.70%
- 31-90 days overdue	2,233	38	2,195	1.70%
- overdue more than 270 days	4,459	766	3,693	17.18%
Total business loans	**2,386,816**	**41,266**	**2,345,550**	**1.73%**
Auto loans				
- not overdue	2,810,826	5,622	2,805,204	0.20%
- overdue less than 30 days	48,962	98	48,864	0.20%
- 31-90 days overdue	19,271	87	19,184	0.45%
- 91-180 days overdue	16,470	3,129	13,341	19.00%
- 181-270 days overdue	9,155	18	9,137	0.20%
Total auto loans	**2,904,684**	**8,954**	**2,895,730**	**0.31%**
Consumer loans				
- not overdue	2,467,911	4,936	2,462,975	0.20%
- overdue less than 30 days	10,071	416	9,655	4.13%
- 31-90 days overdue	17,313	1,877	15,436	10.84%
- 91-180 days overdue	91,949	12,141	79,808	13.20%
- 181-270 days overdue	9,043	1,924	7,119	21.28%
Total consumer loans	**2,596,287**	**21,294**	**2,574,993**	**0.82%**
Total loans to individuals	**39,972,233**	**333,710**	**39,638,523**	**0.83%**
Total loans to customers	**310,854,599**	**5,240,883**	**305,613,716**	**1.69%**

As at 31 December 2015 credit card loans overdue more than 270 days consist of two loans with individual signs of impairment, allowance for which was assessed individually.

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

(i) Loans to legal entities

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to legal entities include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment or negative changes in the borrower's markets.

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

21. Loans to customers (continued)

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

In determining the impairment allowance for loans to legal entities, management makes the following key assumptions:

- historic annual loss rate is applied for performing loans to legal entities and small and medium size companies. Historic annual loss rate is estimated based on average loan write-off statistics and economic coefficient and is applied in respect of performing loans to legal entities;
- recoverable amount for loans with individual signs of impairment is calculated based on following assumptions:
    1) a discount of between 20% and 30% to the collateral value;
    2) a delay of 12 months in obtaining proceeds from the foreclosure of collateral;
    3) cash flows from renegotiated loans are assessed based on the rescheduled agreement terms.

(ii) Loans to individuals

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

- loss migration rates are estimated based on the historic loss migration pattern for the past 24 months. Loss migration rates are applied in respect of mortgage, credit card, auto and consumer loans;
- historic annual loss rate is estimated based on average loan write-off statistics and economic coefficient and is applied in respect of performing business loans to individuals.

Individually impaired loans

Interest income accrued on individually impaired loans for the year ended 31 December 2016 comprised AMD 740,969 thousand (2015: AMD 180,103 thousand).

(c) Analysis of collateral

(i) Loans to legal entities

Loans to legal entities are subject to individual credit appraisal and impairment testing. The general creditworthiness of legal entities tends to be important indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests legal entities to provide it.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities.
- For commercial lending, charges over real estate properties, inventory and trade receivables; cash collateral.
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The fair value of collateral that the Bank holds relating to loans with individual signs of impairment at 31 December 2016 amounts to AMD 10,835,708 thousand (2015: AMD 13,093,769 thousand).

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

(ii) Loans to individuals

Mortgage loans are secured by the underlying housing real estate. The Bank’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Business loans are secured by real estate and corporate shares. Auto loans are secured by the underlying cars. As of 31 December 2016 consumer loans are secured by real estate, movable property, salary, cash and guarantees. Other loans to individuals are mainly secured by gold.

21. Loans to customers (continued)

(c) Analysis of collateral (continued)

(iii) Repossessed collateral

During the year 2016, the Bank obtained certain assets by taking possession of collateral for loans to legal entities with a net carrying amount of AMD 244,754 thousand (2015: AMD 283,425 thousand). As at 31 December 2016 the repossessed collateral comprise real estate and is classified as other assets.

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

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued to finance following economic sectors:

	2016 AMD'000	*2015 AMD'000*
Construction	84,189,991	18,813,972
Finance and investment	77,261,906	5,802,627
Real estate	50,249,429	42,133,471
Wholesale trade	47,417,214	36,447,087
Mining/metallurgy	28,408,361	17,102,521
Energy	25,620,351	30,454,541
Hotel service	25,468,851	11,643,854
Agriculture, forestry and timber	23,843,777	20,659,055
Communication services	22,310,945	17,245,195
Food and beverage	20,163,246	18,954,719
Retail trade	17,034,146	16,816,434
Transportation	10,171,744	11,135,143
Manufacturing	9,608,698	9,027,795
Municipal authorities	160,379	2,597,393
Other	19,369,074	12,048,559
Loans to individuals	46,996,782	39,972,233
	508,274,894	**310,854,599**
Impairment allowance	(8,986,372)	(5,240,883)
	499,288,522	**305,613,716**

The geographical concentration of Bank's loans to legal entities (net loans) is set out below:

	2016 AMD'000	*2015 AMD'000*
Armenia	266,046,599	217,645,811
OECD and EU	141,973,028	41,995,136
Other foreign countries	44,768,157	6,334,246
	452,787,784	**265,975,193**

(e) Significant credit exposures

As at 31 December 2016 the Bank has twelve borrowers or groups of connected borrowers (2015: six), whose loan balances exceed 10% of the Bank's equity. The exposure on these loans (net of cash collateral received) as at 31 December 2016 is AMD 108,667,191 thousand (2015: AMD 49,681,996 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 35 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

22. Receivables from letters of credit

	2016 AMD'000	*2015 AMD'000*
Receivables from letters of credit of banks	–	1,226,469
Receivables from letters of credit of other organizations	7,722,748	8,749,959
Impairment allowance	(15,445)	(1,246,423)
	7,707,303	**8,730,005**

As at 31 December 2016 the Bank has no customers (2015: none), whose balances exceed 10% of the Bank's equity.

Movements in impairment allowance for the year 2016 and 2015 are as follows:

	2016 AMD'000	*2015 AMD'000*
Balance at the beginning of the year	**1,246,423**	**28,490**
Net charge	280,364	1,217,933
Write-offs	(1,511,342)	–
Balance at the end of the year	**15,445**	**1,246,423**

23. Receivables from finance leases

	2016 AMD'000	*2015 AMD'000*
Gross investment in finance leases receivable		
Less than one year	533,878	761,401
Between one and five years	1,158,994	1,745,003
More than five years	1,144,665	51,309
	2,837,537	**2,557,713**
Unearned finance income	(735,821)	(416,240)
Impairment allowance	(61,694)	(42,009)
Net investment in finance leases	**2,040,022**	**2,099,464**
The net investment in finance leases comprises		
Less than one year	482,222	699,033
Between one and five years	900,996	1,366,503
More than five years	656,804	33,928
	2,040,022	**2,099,464**

(a) Quality analysis of finance leases

The following table provides information on the quality analysis of finance leases as at 31 December 2016:

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Finance leases				
Finance leases without individual signs of impairment				
- not overdue	2,037,211	30,128	2,007,083	1.48%
- 31-90 days overdue	24,881	409	24,472	1.64%
Total finance leases without individual signs of impairment	**2,062,092**	**30,537**	**2,031,555**	**1.48%**
Finance leases with individual signs of impairment				
- more than 270 days overdue	39,624	31,157	8,467	78.63%
Total finance leases with individual signs of impairment	**39,624**	**31,157**	**8,467**	**78.63%**
Total finance leases	**2,101,716**	**61,694**	**2,040,022**	**2.94%**

23. Receivables from finance leases (continued)

(a) Quality analysis of finance leases (continued)

The following table provides information on the quality analysis of finance leases as at 31 December 2015:

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Finance leases				
- not overdue	2,088,159	19,446	2,068,713	0.93%
- 91-180 days overdue	53,314	22,563	30,751	42.32%
Total finance leases	**2,141,473**	**42,009**	**2,099,464**	**1.96%**

(b) Concentration of receivables from finance leases

As at 31 December 2016 the Bank has no customers whose balances exceed 10% of the Bank's equity (2015: nil).

Movements in impairment allowance for the year 2016 and 2015 are as follows:

	2016 AMD'000	*2015 AMD'000*
Balance at the beginning of the year	**42,009**	**5,717**
Net charge	30,875	46,822
Write-offs	(11,190)	(10,530)
Balance at the end of the year	**61,694**	**42,009**

(c) Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in note 35 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

(d) Geographical analysis of the finance lease portfolio

The majority of finance leases are with customers located within the Republic of Armenia.

24. Receivables from factoring

	2016 AMD'000	*2015 AMD'000*
Receivables from factoring	4,191,244	5,458,872
Impairment allowance	(8,382)	(10,918)
	4,182,862	**5,447,954**

As at 31 December 2016 the Bank has no customers whose balances exceed 10% of the Bank's equity (2015: nil).

Movements in impairment allowance for the year 2016 and 2015 are as follows:

	2016 AMD'000	*2015 AMD'000*
Balance at the beginning of the year	**10,918**	**8,980**
Net charge	716	113,812
Write-offs	(3,252)	(111,874)
Balance at the end of the year	**8,382**	**10,918**

(a) Quality analysis of factoring

As at 31 December 2016 the Bank does not have any impaired or overdue amounts receivable from factoring.

25. Held-to-maturity investments

	2016 AMD'000	*2015 AMD'000*
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government bonds of the Republic of Armenia	28,194,902	2,575,961
Eurobonds of the Republic of Armenia	6,967,102	–
- Corporate bonds		
International Financial Institutions	–	1,301,535
Corporate bonds of foreign companies	803,989	–
Corporate bonds of Armenian companies	289,649	796,348
	36,255,642	**4,673,844**
Pledged under sale and repurchase agreements		
- Government bonds of the Republic of Armenia	–	7,912,045
- Eurobonds of the Republic of Armenia	–	6,984,816
	–	**14,896,861**

26. Property, equipment and intangible assets

AMD'000	*Leasehold improvement*	*Computers and communication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost						
Balance at 1 January 2016	**1,668,483**	**2,962,100**	**578,903**	**180,789**	**1,568,589**	**6,958,864**
Additions	142,492	498,347	82,686	150,723	500,117	**1,374,365**
Disposals/write-offs	(134,009)	(160,334)	(52,310)	(75,486)	–	**(422,139)**
Balance at 31 December 2016	**1,676,966**	**3,300,113**	**609,279**	**256,026**	**2,068,706**	**7,911,090**
Depreciation and amortization						
Balance at 1 January 2016	**772,770**	**1,920,098**	**382,172**	**160,660**	**527,461**	**3,763,161**
Depreciation and amortization for the year	173,058	294,372	62,346	14,926	233,792	**778,494**
Disposals/write-offs	(28,622)	(138,126)	(39,570)	(75,486)	–	**(281,804)**
Balance at 31 December 2016	**917,206**	**2,076,344**	**404,948**	**100,100**	**761,253**	**4,259,851**
Carrying amount						
At 31 December 2016	**759,760**	**1,223,769**	**204,331**	**155,926**	**1,307,453**	**3,651,239**

AMD'000	*Leasehold improvement*	*Computers and communication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost						
Balance at 1 January 2015	**1,626,201**	**2,640,538**	**541,291**	**188,435**	**893,308**	**5,889,773**
Additions	42,282	355,900	43,739	1	678,965	**1,120,887**
Disposals/write-offs	–	(34,338)	(6,127)	(7,647)	(3,684)	**(51,796)**
Balance at 31 December 2015	**1,668,483**	**2,962,100**	**578,903**	**180,789**	**1,568,589**	**6,958,864**
Depreciation and amortization						
Balance at 1 January 2015	**603,492**	**1,628,538**	**309,686**	**157,815**	**359,598**	**3,059,129**
Depreciation and amortization for the year	169,278	325,547	78,412	10,492	169,482	**753,211**
Disposals/write-offs	–	(33,987)	(5,926)	(7,647)	(1,619)	**(49,179)**
Balance at 31 December 2015	**772,770**	**1,920,098**	**382,172**	**160,660**	**527,461**	**3,763,161**
Carrying amount						
At 31 December 2015	**895,713**	**1,042,002**	**196,731**	**20,129**	**1,041,128**	**3,195,703**

27. Other assets

	2016 AMD'000	*2015 AMD'000*
Receivables from unsettled transactions	396,889	378,067
Restricted accounts with clearing houses	345,624	654,261
Brokerage accounts	115,385	205,552
Total other financial assets	**857,898**	**1,237,880**
Repossessed assets	1,118,947	721,058
Prepayments to suppliers	479,686	430,380
Standard bullions of precious metals	351,233	77,973
Inventories	55,051	60,400
Impairment allowance	(89,162)	(65,522)
Other	23,045	53,014
Total other non-financial assets	**1,938,800**	**1,277,303**
Total other assets	**2,796,698**	**2,515,183**

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2016 and 2015 are as follows:

	2016 AMD'000	*2015 AMD'000*
Balance at the beginning of the year	**65,522**	**65,522**
Net charge	37,953	363,078
Write-offs	(14,313)	(363,078)
Balance at the end of the year	**89,162**	**65,522**

28. Deposits and balances from banks

	2016 AMD'000	*2015 AMD'000*
Long term loans and term deposits from commercial banks	53,267,356	87,227
Liabilities for letters of credit	8,664,321	11,119,805
Loans from CBA (through international programs)	8,032,191	5,921,668
Short term loans and term deposits from commercial banks	1,637,334	3,849,834
Vostro accounts	233,680	235,997
	71,834,882	**21,214,531**

According to the agreement the CBA provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at 31 December 2016 the Bank has two banks (2015: one bank), whose balances exceed 10% of the Bank's equity. The gross value of these balances as at 31 December 2016 is AMD 61,299,548 thousand (2015: AMD 11,144,709 thousand).

29. Amounts payable under repurchase agreements

	2016 AMD'000	*2015 AMD'000*
Amounts due to the CBA	**–**	**19,004,763**

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

29. Amounts payable under repurchase agreements (continued)

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be re-pledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. In 2016 there are no securities presented as a “pledged under sale and repurchase agreements” (2015: AMD 20,212,410). The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay the purchase price for this collateral.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(a) Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognized in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition as at 31 December 2015 (there are no such assets as at 31 December 2016):

		Held to maturity		*Available for sale*		
	Transferred financial asset	*Gov. debt securities and Eurobonds of the Republic of Armenia 2015*	*Other debt securities 2015*	*Gov. debt securities 2015*	*Other debt securities 2015*	*Total 2015*
Carrying amount assets	Repurchase agreements	14,896,861	–	5,315,549	–	**20,212,410**
Total		**14,896,861**	**–**	**5,315,549**	**–**	**20,212,410**
Carrying amount associated liabilities	Repurchase agreements	–	–	–	–	**19,004,763**
Net position		**–**	**–**	**–**	**–**	**1,207,647**

30. Current accounts and deposits from customers

	2016 AMD’000	*2015 AMD’000*
Current accounts and demand deposits		
- Individuals	32,809,388	31,940,756
- Legal entities	155,773,778	61,011,030
Term deposits		
- Individuals	121,592,267	105,223,342
- Legal entities	104,433,253	95,837,012
	414,608,686	**294,012,140**

As at 31 December 2016, the Bank maintained customer current accounts and deposit balances of AMD 145,465,084 thousand (2015: AMD 39,200,877 thousand) that serve as collateral for loans and credit related commitments granted by the Bank.

As at 31 December 2016, the Bank has eight customers (2015: four customers) whose balances exceed 10% of the Bank’s equity. The gross value of these balances as at 31 December 2016 is AMD 127,255,616 thousand (2015: AMD 68,380,267 thousand).

31. Debt securities issued

	2016 AMD'000	2015 AMD'000
Promissory notes	9,703,138	–
Domestic bonds issued	8,421,362	–
	18,124,500	**–**

In 2016 Bank placed USD denominated promissory notes with four Luxembourg-based funds via its investment manager responsability Investments AG in amount of USD 20,000,000 with maturity in 2021. As at 31 December 2016 carrying value of the promissory notes is AMD 9,703,138 thousand.

During the second quarter of 2016 the Bank issued USD denominated bonds with nominal amount of USD 15,000,000 in Armenia with maturity in 2018. As at 31 December 2016 carrying value of the bonds is AMD 7,358,699 thousand.

During the third quarter of 2016 the Bank registered Prospectus in Central Bank of Armenia for issuing USD denominated bonds in total nominal amount of up to USD 50,000,000. As at 31 December 2016 0.2% of this emission with nominal amount of USD 100,700 was placed by the Bank with maturity in 2019. As at 31 December 2016 carrying value of the bonds is AMD 48,806 thousand.

During the fourth quarter of 2016 the Bank also issued and placed AMD denominated bonds with nominal amount of AMD 1,000,000 thousand in Armenia with maturity in fourth quarter of 2018. As at 31 December 2016 carrying value of the bonds is AMD 1,013,857 thousand.

Bonds issued by the Bank are listed in Nasdaq OMX Armenia stock exchange.

32. Other borrowed funds and subordinated borrowings

	2016 AMD'000	2015 AMD'000
Borrowings from international and other financial institutions	102,303,900	76,912,193
Borrowings from the Government of Armenia	431,139	1,471,668
	102,735,039	**78,383,861**
Subordinated borrowings	**40,811,255**	**39,721,324**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2016, the Bank has eight financial institutions (2015: eleven), whose balances exceed 10% of the Bank' equity. These balances as at 31 December 2016 are AMD 127,057,569 thousand (2015: AMD 109,578,263 thousand).

(b) Borrowings from the Government of Armenia

The borrowings from the Government of Armenia include amounts lent from Government of Armenia (CBA is acting as the agent of the Government of Armenia). According to the agreement the borrowings are granted to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

The borrowings are in AMD, bear interest rates of 7.3%-7.8%, are granted for period of up to five years and are to be repaid at maturity.

(c) Subordinated borrowing

As at 31 December 2016 subordinated borrowing represents:

- Borrowing received from a related party (AMD 5,920,428 thousand) maturing on 11 January 2021.
- Borrowing received from other financial institution (AMD 9,882,265 thousand) maturing on 23 September 2020.
- Borrowing received from an international financial institution (AMD 25,008,562 thousand) maturing on 11 January 2022.

In case of bankruptcy, the repayment of the subordinated borrowing will be made after repayment in full of all other liabilities of the Bank.

32. Other borrowed funds and subordinated borrowings (continued)

(d) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with all covenants as of 31 December 2016.

33. Other liabilities

	2016 AMD'000	*2015 AMD'000*
Payables to staff	1,725,164	1,738,221
Other payables	505,115	636,227
Other financial liabilities	543,468	767,841
Total other financial liabilities	**2,773,747**	**3,142,289**
Deferred income	10,136	10,155
Other taxes payable	89,255	5,659
Total other non-financial liabilities	**99,391**	**15,814**
Total other liabilities	**2,873,138**	**3,158,103**

34. Share capital and treasury shares

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 100,273 ordinary shares (2015: 100,273). All shares have a nominal value of AMD 320 thousand and are fully paid.

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

(b) Nature and purpose of reserves

Revaluation reserve for available-for-sale financial assets

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

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia.

Dividends declared and paid by the Bank in 2016 amounted to AMD 1,685,286 thousand (2015: AMD 2,100,000 thousand). As of the date of the declaration and payment of dividends, dividends per share amounted to AMD 16.807 thousand (2015: AMD 26.407 thousand).

35. Risk management

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

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

35. Risk management (continued)

(a) Risk management policies and procedures (continued)

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Asset and Liabilites Department in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is set out below. Floating rate instruments are grouped in accordance with their repricing dates.

35. Risk management (continued)

(b) Market risk (continued)

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Non-interest bearing or overdue*	*Carrying amount*
31 December 2016							
Assets							
Cash and cash equivalents	–	–	–	–	–	135,280,872	135,280,872
Available-for-sale financial assets	3,418,111	1,542,423	49,967	6,794,780	496,553	106,458	12,408,292
Loans and advances to banks	3,516,249	–	–	–	–	1,337,053	4,853,302
Amounts receivable under reverse repurchase agreements	6,446,797	–	–	–	–	–	6,446,797
Loans to customers	49,987,719	70,035,996	63,011,550	239,247,172	65,826,585	11,179,500	499,288,522
Receivables from letters of credit	2,591,904	749,057	1,640,657	2,725,685	–	–	7,707,303
Receivables from finance leases	123,519	118,237	240,466	900,996	656,804	–	2,040,022
Receivables from factoring	2,841,855	1,341,007	–	–	–	–	4,182,862
Held-to-maturity investments	13,258,091	8,148,865	675,060	14,031,035	142,591	–	36,255,642
	82,184,245	**81,935,585**	**65,617,700**	**263,699,668**	**67,122,533**	**147,903,883**	**708,463,614**
Liabilities							
Deposits and balances from banks	(3,724,091)	(893,022)	(4,516,288)	(60,870,822)	(1,830,659)	–	(71,834,882)
Current accounts and deposits from customers	(74,215,296)	(31,244,657)	(67,043,411)	(53,453,037)	(69,119)	(188,583,166)	(414,608,686)
Debt securities issued	(109,244)	(24,650)	–	(17,990,606)	–	–	(18,124,500)
Subordinated borrowings	(35,010,155)	–	–	(5,801,100)	–	–	(40,811,255)
Other borrowed funds	(59,734,053)	(42,510,773)	(396,597)	(47,470)	(46,146)	–	(102,735,039)
	(172,792,839)	**(74,673,102)**	**(71,956,296)**	**(138,163,035)**	**(1,945,924)**	**(188,583,166)**	**(648,114,362)**
Effect of derivatives	9,293,848	–	(2,364,707)	(6,049,248)	(879,893)	–	–
Net position	**(81,314,746)**	**7,262,483**	**(8,703,303)**	**119,487,385**	**64,296,716**	**(40,679,283)**	**60,349,252**

35. Risk management (continued)

(b) Market risk (continued)

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Non-interest bearing or overdue*	*Carrying amount*
31 December 2015							
Assets							
Cash and cash equivalents	–	–	–	–	–	142,713,317	142,713,317
Available-for-sale financial assets	34,243	570,496	818,813	6,617,748	2,130,841	106,460	10,278,601
Loans and advances to banks	6,985,607	–	–	–	–	1,187,068	8,172,675
Amounts receivable under reverse repurchase agreements	5,980,477	–	–	–	–	–	5,980,477
Loans to customers	53,116,619	13,576,243	32,566,376	162,787,834	31,061,856	12,504,788	305,613,716
Receivables from letters of credit	1,404,271	381,894	2,956,525	3,987,315	–	–	8,730,005
Receivables from finance leases	252,964	150,393	295,676	1,366,503	33,928	–	2,099,464
Receivables from factoring	4,701,022	746,932	–	–	–	–	5,447,954
Held-to-maturity investments	1,563,685	3,492,092	2,998,617	10,877,982	638,329	–	19,570,705
	74,038,888	**18,918,050**	**39,636,007**	**185,637,382**	**33,864,954**	**156,511,633**	**508,606,914**
Liabilities							
Deposits and balances from banks	(5,946,744)	(1,207,719)	(3,603,911)	(8,262,368)	(2,193,789)	–	(21,214,531)
Amounts payable under repurchase agreements	(19,004,763)	–	–	–	–	–	(19,004,763)
Current accounts and deposits from customers	(61,159,253)	(33,413,051)	(54,740,255)	(51,657,186)	(90,609)	(92,951,786)	(294,012,140)
Subordinated borrowings	(33,909,489)	–	–	–	(5,811,835)	–	(39,721,324)
Other borrowed funds	(47,094,096)	(20,740,323)	(295,853)	(10,253,589)	–	–	(78,383,861)
	(167,114,345)	**(55,361,093)**	**(58,640,019)**	**(70,173,143)**	**(8,096,233)**	**(92,951,786)**	**(452,336,619)**
Effect of derivatives	8,300,710	–	(1,924,006)	(6,376,704)	–	–	–
Net position	**(84,774,747)**	**(36,443,043)**	**(20,928,018)**	**109,087,535**	**25,768,721**	**63,559,847**	**56,270,295**

35. Risk management (continued)

(b) Market risk (continued)

Average effective interest rates

The table below displays average interest rates for interest bearing assets and liabilities as at 31 December 2016 and 31 December 2015.

	2016 Average interest rate, %			*2015 Average interest rate, %*		
	AMD	***USD***	***Other currencies***	***AMD***	***USD***	***Other currencies***
Interest bearing assets						
Available-for-sale financial assets	13.27%	1.86%	–	13.28%	6.51%	–
Loans and advances to banks	6.15%	–	–	9.31%	7.08%	–
Amounts receivable under reverse repurchase agreements	6.88%	3.50%	–	10.60%	–	–
Loans to customers	12.14%	8.19%	9.95%	13.70%	10.58%	10.11%
Receivables from finance leases	14.74%	8.80%	12.00%	14.88%	11.29%	9.75%
Receivables from factoring	15.55%	10.80%	–	18.00%	11.08%	13.41%
Held-to-maturity investments	8.63%	5.04%	–	11.42%	5.62%	–
Interest bearing liabilities						
Deposits and balances from banks	9.69%	2.71%	0.89%	7.42%	1.75%	1.76%
Amounts payable under repurchase agreements	–	–	–	9.16%	–	–
Current accounts and deposits from customers						
- Term deposits	12.11%	5.80%	5.89%	12.12%	6.31%	5.96%
Debt securities issued	10.75%	5.56%	–	–	–	–
Subordinated borrowings	–	8.11%	–	–	7.60%	–
Other borrowed funds	9.04%	6.57%	–	14.07%	5.56%	–

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	***Increase in basis points 2016***	***Sensitivity of net interest income 2016***	***Sensitivity of equity and other comprehensive income 2016***
AMD	3.70%	–	(644,216)
USD	1.00%	(99,386)	–

Currency	***Decrease in basis points 2016***	***Sensitivity of net interest income 2016***	***Sensitivity of equity and other comprehensive income 2016***
AMD	3.70%	–	644,216
USD	1.00%	99,386	–

35. Risk management (continued)

(b) Market risk (continued)

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of equity and other comprehensive income 2015*
AMD	5.00%	–	(1,512,108)
USD	1.00%	(68,353)	–

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of equity and other comprehensive income 2015*
AMD	5.00%	–	1,512,108
USD	1.00%	68,353	–

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

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

	USD AMD'000	*EUR AMD'000*	*Other currencies AMD'000*	*Total AMD'000*
Assets				
Cash and cash equivalents	60,519,867	16,343,707	1,286,790	**78,150,364**
Available-for-sale financial assets	5,046,032	–	–	**5,046,032**
Loans and advances to banks	183,897	2,197,338	62,810	**2,444,045**
Amounts receivable under reverse repurchase agreements	1,196,793	–	–	**1,196,793**
Loans to customers	360,368,545	14,339,351	13,550	**374,721,446**
Receivables from letters of credit	4,995,759	2,711,546	–	**7,707,305**
Receivables from finance leases	1,585,355	226,224	–	**1,811,579**
Receivables from factoring	3,927,965	–	–	**3,927,965**
Held-to-maturity investments	7,771,091	–	–	**7,771,091**
Other assets	722,995	26,648	381,770	**1,131,413**
Total assets	**446,318,299**	**35,844,814**	**1,744,920**	**483,908,033**
Liabilities				
Deposits and balances from banks	9,911,600	2,725,678	174,652	**12,811,930**
Current accounts and deposits from customers	278,789,515	33,005,620	2,533,880	**314,329,015**
Debt securities issued	17,106,596	–	–	**17,106,596**
Subordinated borrowings	40,811,255	–	–	**40,811,255**
Other borrowed funds	88,947,284	–	–	**88,947,284**
Other liabilities	436,779	113,422	7,192	**557,393**
Total liabilities	**436,003,029**	**35,844,720**	**2,715,724**	**474,563,473**
Net position	**10,315,270**	**94**	**(970,804)**	**9,344,560**
Effect of derivatives	(404,937)	–	1,377,911	**972,974**
Net position	**9,910,333**	**94**	**407,107**	**10,317,534**

35. Risk management (continued)

(b) Market risk (continued)

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

	USD AMD'000	*EUR AMD'000*	*Other currencies AMD'000*	*Total AMD'000*
Assets				
Cash and cash equivalents	60,141,868	15,012,464	1,521,188	**76,675,520**
Available-for-sale financial assets	3,333,610	–	–	**3,333,610**
Loans and advances to banks	3,184,243	63,443	16,550	**3,264,236**
Loans to customers	228,788,428	12,485,159	–	**241,273,587**
Receivables from letters of credit	4,681,253	5,295,175	–	**9,976,428**
Receivables from finance leases	1,206,759	473,256	–	**1,680,015**
Receivables from factoring	5,277,664	12,878	11,584	**5,302,126**
Held-to-maturity investments	7,478,416	–	–	**7,478,416**
Other assets	1,163,741	65,068	90,071	**1,318,880**
Total assets	**315,255,982**	**33,407,443**	**1,639,393**	**350,302,818**
Liabilities				
Financial instruments at fair value through profit or loss	105,902	–	–	**105,902**
Deposits and balances from banks	10,295,701	4,932,921	113,686	**15,342,308**
Current accounts and deposits from customers	188,172,730	28,185,894	2,929,210	**219,287,834**
Subordinated borrowings	39,721,324	–	–	**39,721,324**
Other borrowed funds	69,615,481	–	–	**69,615,481**
Other liabilities	701,156	306,350	55,264	**1,062,770**
Total liabilities	**308,612,294**	**33,425,165**	**3,098,160**	**345,135,619**
Net position	**6,643,688**	**(17,722)**	**(1,458,767)**	**5,167,199**
Effect of derivatives	(2,321,837)	–	1,490,584	**(831,253)**
Net position	**4,321,851**	**(17,722)**	**31,817**	**4,335,946**

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2016 and 31 December 2015 would have increased/(decreased) equity and profit or loss by the amounts shown below (due to the fair value of currency sensitive non-trading monetary assets and liabilities). This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016		*2015*	
	Appreciation	*Profit or loss AMD'000*	*Appreciation*	*Profit or loss AMD'000*
AMD against USD	6.00%	(594,620)	10.00%	(432,185)
AMD against EUR	11.00%	(10)	14.00%	2,481

A weakening of the AMD against the above currencies at 31 December 2016 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee and Risk Management Center, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

35. Risk management (continued)

(c) Credit risk (continued)

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (legal entities and individuals);
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing control and monitoring of loans and other credit exposures.

Legal entity loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the loan portfolio of legal entities. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Center and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal department depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Loans to individuals credit applications are reviewed by the Retail Lending Subdivisions.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Center with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 21.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 37.

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

35. Risk management (continued)

(c) Credit risk (continued)

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

Types of financial assets/liabilities AMD'000	*Gross amounts of recognized financial asset/liability*	*Gross amount of recognized financial liability/asset offset in the statement of financial position*	*Net amount of financial assets/liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position* — *Financial instruments*	*Net amount*
Amounts receivable under reverse repurchase agreements	6,446,797	–	6,446,797	6,446,797	–
Total financial assets	**6,446,797**	**–**	**6,446,797**	**6,446,797**	**–**
Amounts payable under repurchase agreements	–	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**–**	**–**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

Types of financial assets/liabilities AMD'000	*Gross amounts of recognized financial asset/liability*	*Gross amount of recognized financial liability/asset offset in the statement of financial position*	*Net amount of financial assets/liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position* — *Financial instruments*	*Net amount*
Amounts receivable under reverse repurchase agreements	5,980,477	–	5,980,477	(5,980,477)	–
Total financial assets	**5,980,477**	**–**	**5,980,477**	**(5,980,477)**	**–**
Amounts payable under repurchase agreements	(19,004,763)	–	(19,004,763)	19,004,763	–
Total financial liabilities	**(19,004,763)**	**–**	**(19,004,763)**	**19,004,763**	**–**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortized cost basis.

(d) Liquidity risk

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

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

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

35. Risk management (continued)

(d) Liquidity risk (continued)

The liquidity management policy requires:

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

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. 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.

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount (inflow) outflow*	*Carrying amount*
Non-derivative liabilities								
Deposits and balances from banks	2,100,331	3,138,977	2,407,413	7,544,034	73,997,839	3,755,885	**92,944,479**	71,834,882
Current accounts and deposits from customers	177,880,935	44,547,002	80,066,279	75,153,976	73,936,195	372,751	**451,957,138**	414,608,686
Debt securities issued	145,337	113,980	174,723	300,146	18,698,254	–	**19,432,440**	18,124,500
Subordinated borrowing	1,287,282	922,310	804,708	1,609,415	27,985,181	28,181,381	**60,790,277**	40,811,255
Other borrowed funds	4,249,206	13,524,822	5,206,334	11,539,299	91,124,295	12,413,978	**138,057,934**	102,735,039
Other financial liabilities	545,421	165,393	2,062,933	–	–	–	**2,773,747**	2,773,747
Net settled derivative liabilities	2,645	–	–	–	–	–	**2,645**	2,645
Gross settled derivative financial instruments								
- Contractual amounts payable	–	–	–	(92,312,915)	(72,559,894)	–	**(164,872,809)**	(2,532,638)
- Contractual amounts receivable	–	–	–	92,683,275	72,781,457	–	**165,464,732**	3,056,734
Total financial liabilities	**186,211,157**	**62,412,484**	**90,722,390**	**96,517,230**	**285,963,327**	**44,723,995**	**766,550,583**	**651,414,850**
Credit related commitments	**43,908,219**	**–**	**–**	**–**	**–**	**–**	**43,908,219**	**43,908,219**

35. Risk management (continued)

(d) Liquidity risk (continued)

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total gross amount (inflow) outflow*	*Carrying amount*
Non-derivative liabilities								
Deposits and balances from banks	1,883,158	4,231,283	1,364,087	3,885,333	9,998,554	3,222,416	**24,584,831**	21,214,531
Amounts payable under repurchase agreements	19,004,763	–	–	–	–	–	**19,004,763**	19,004,763
Current accounts and deposits from customers	119,142,533	38,188,710	35,907,181	58,368,806	61,928,073	115,206	**313,650,509**	294,012,140
Subordinated borrowing	273,785	859,956	754,011	1,508,023	21,294,946	32,074,596	**56,765,317**	39,721,324
Other borrowed funds	9,584,295	3,535,589	6,891,382	8,410,496	61,776,172	7,130,643	**97,328,577**	78,383,861
Other financial liabilities	767,914	62,217	2,312,158	–	–	–	**3,142,289**	3,142,289
Derivative liabilities								
- Inflow	–	–	–	–	(6,657)	–	**(6,657)**	(6,657)
- Outflow	3,904	58,674	–	30,542	496,097	–	**589,217**	589,217
Total financial liabilities	**150,660,352**	**46,936,429**	**47,228,819**	**72,203,200**	**155,487,185**	**42,542,861**	**515,058,846**	**456,061,468**
Credit related commitments	**32,259,866**	**–**	**–**	**–**	**–**	**–**	**32,259,866**	**32,259,866**

The maturity analysis in the table above and in the table below does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period less than three months in the tables.

Included in due to customers in the table above and in the table below are time deposits of individuals. In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. These deposits are classified in the table above in accordance with their stated maturity dates.

35. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	135,280,872	–	–	–	–	–	–	**135,280,872**
Financial instruments at fair value through profit or loss	32,747	–	1,635,132	1,462,192	–	–	–	**3,130,071**
Available−for-sale financial assets	235,398	3,182,714	1,592,389	6,794,780	496,553	106,458	–	**12,408,292**
Loans and advances to banks	3,516,249	–	–	–	–	1,337,053	–	**4,853,302**
Amounts receivable under reverse repurchase agreements	6,446,797	–	–	–	–	–	–	**6,446,797**
Loans to customers	16,403,038	28,527,041	125,809,682	236,921,824	80,447,437	–	11,179,500	**499,288,522**
Receivables from letters of credit	148,376	2,443,528	2,389,714	2,725,685	–	–	–	**7,707,303**
Receivables from finance leases	45,415	78,104	358,703	900,996	656,804	–	–	**2,040,022**
Receivables from factoring	2,244,277	597,578	1,341,007	–	–	–	–	**4,182,862**
Held-to-maturity investments	–	13,258,090	8,823,925	14,031,034	142,593	–	–	**36,255,642**
Property, equipment and intangible assets	–	–	–	–	–	3,651,239	–	**3,651,239**
Current tax asset	–	–	–	1,321,801	–	–	–	**1,321,801**
Other assets	522,684	88,859	1,484,368	–	–	700,787	–	**2,796,698**
Total assets	**164,875,853**	**48,175,914**	**143,434,920**	**264,158,312**	**81,743,387**	**5,795,537**	**11,179,500**	**719,363,423**
Liabilities								
Financial instruments at fair value through profit or loss	2,081	–	1,554,643	978,559	–	–	–	**2,535,283**
Deposits and balances from banks	1,595,259	2,128,832	5,409,310	60,870,822	1,830,659	–	–	**71,834,882**
Current accounts and deposits from customers	176,449,951	41,703,120	142,918,485	53,468,011	69,119	–	–	**414,608,686**
Debt securities issued	95,313	13,931	24,650	17,990,606	–	–	–	**18,124,500**
Subordinated borrowings	1,019,046	385,838	–	15,378,096	24,028,275	–	–	**40,811,255**
Other borrowed funds	3,619,303	12,292,150	11,198,771	69,423,677	6,201,138	–	–	**102,735,039**
Deferred tax liability	–	–	–	1,442,872	–	–	–	**1,442,872**
Other liabilities	545,421	165,393	2,162,324	–	–	–	–	**2,873,138**
Total liabilities	**183,326,374**	**56,689,264**	**163,268,183**	**219,552,643**	**32,129,191**	**–**	**–**	**654,965,655**
Net position	**(18,450,521)**	**(8,513,350)**	**(19,833,263)**	**44,605,669**	**49,614,196**	**5,795,537**	**11,179,500**	**64,397,768**
Cumulative net position	**(18,450,521)**	**(26,963,871)**	**(46,797,134)**	**(2,191,465)**	**47,422,731**			

35. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	142,713,317	–	–	–	–	–	–	**142,713,317**
Financial instruments at fair value through profit or loss	–	–	–	465,303	–	–	–	**465,303**
Available-for-sale financial assets	–	34,243	1,389,309	6,617,748	2,130,843	106,458	–	**10,278,601**
Loans and advances to banks	5,748,086	1,237,521	–	–	–	1,187,068	–	**8,172,675**
Amounts receivable under reverse repurchase agreements	5,980,477	–	–	–	–	–	–	**5,980,477**
Loans to customers	14,461,769	14,129,803	51,930,687	174,147,478	38,439,191	–	12,504,788	**305,613,716**
Receivables from letters of credit	1,095,892	308,379	3,338,419	3,987,315	–	–	–	**8,730,005**
Receivables from finance leases	87,382	165,582	446,069	1,366,503	33,928	–	–	**2,099,464**
Receivables from factoring	2,919,226	1,781,796	746,932	–	–	–	–	**5,447,954**
Held-to-maturity investments	1,274,824	288,860	6,490,709	10,877,982	638,330	–	–	**19,570,705**
Property, equipment and intangible assets	–	–	–	–	–	3,195,703	–	**3,195,703**
Current tax asset	–	–	1,090,585	–	–	–	–	**1,090,585**
Other assets	892,907	93,568	1,101,311	–	–	427,397	–	**2,515,183**
Total assets	**175,173,880**	**18,039,752**	**66,534,021**	**197,462,329**	**41,242,292**	**4,916,626**	**12,504,788**	**515,873,688**
Liabilities								
Financial instruments at fair value through profit or loss	3,904	58,674	30,542	489,440	–	–	–	**582,560**
Deposits and balances from banks	1,825,832	4,120,912	4,811,630	8,262,368	2,193,789	–	–	**21,214,531**
Amounts payable under repurchase agreements	19,004,763	–	–	–	–	–	–	**19,004,763**
Current accounts and deposits from customers	117,925,467	36,185,264	88,153,500	51,657,299	90,610	–	–	**294,012,140**
Subordinated borrowings	22,448	357,282	–	9,595,511	29,746,083	–	–	**39,721,324**
Other borrowed funds	7,516,525	2,734,291	11,753,769	50,675,377	5,703,899	–	–	**78,383,861**
Deferred tax liability	–	–	–	479,244	–	–	–	**479,244**
Other liabilities	767,914	67,876	2,322,313	–	–	–	–	**3,158,103**
Total liabilities	**147,066,853**	**43,524,299**	**107,071,754**	**121,159,239**	**37,734,381**	**–**	**–**	**456,556,526**
Net position	**28,107,027**	**(25,484,547)**	**(40,537,733)**	**76,303,090**	**3,507,911**	**4,916,626**	**12,504,788**	**59,317,162**
Cumulative net position	**28,107,027**	**2,622,480**	**(37,915,253)**	**38,387,837**	**41,895,748**			

35. Risk management (continued)

(d) Liquidity risk (continued)

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

	2016 AMD'000	*2015 AMD'000*
At 31 December	128%	177%
Average for December	133%	151%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA which is set as not less than 60%.

36. Capital management

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 maximize 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, policies and processes from the previous years.

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

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

The following table shows the composition of the capital position calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December:

	2016 AMD'000	*2015 AMD'000*
Tier 1 capital	63,227,715	59,061,233
Tier 2 capital	31,613,858	29,530,617
Total capital	**94,841,573**	**88,591,850**
Total risk weighted assets	**463,628,657**	**382,726,609**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**20.46%**	**23.14%**

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

37. Commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	2016 AMD'000	*2015 AMD'000*
Contracted amount		
Loan and credit line commitments	21,416,078	5,459,585
Guarantees and letters of credit	9,740,164	14,657,058
Credit card commitments	7,976,314	6,787,810
Undrawn overdraft facilities	4,775,663	5,355,413
	43,908,219	**32,259,866**

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

38. Operating leases

(a) Bank as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2016 AMD'000	*2015 AMD'000*
Less than 1 year	1,952,090	1,809,340
Between 1 and 5 years	9,490,860	9,727,656
More than 5 years	6,676,219	6,709,069
	18,119,169	**18,246,065**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. As at 31 December 2016 operating leases include non-cancellable rentals to a related party amounting to AMD 15,315,888 thousand (2015: AMD 15,309,875 thousand).

39. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. As of 31 December 2016 the Bank has up to AMD 7,112,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of accidents on the Bank's property or related to operations.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

39. Contingencies (continued)

(c) Taxation contingencies

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

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

40. Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 65.8% of the share capital.

The ultimate parent of the Bank is RKVF family foundation wherein the settlor is Mr. Ruben Vardanyan and final beneficiary owners are his family members.

No publicly available financial statements are produced by the Bank's parent company.

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

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2016 AMD'000	*2015 AMD'000*
Short-term employee benefits	2,271,649	2,267,194

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

	2016 AMD'000	*Average interest rate, %*	*2015 AMD'000*	*Average interest rate, %*
Statement of financial position				
Loans issued	956,059	6.96%	957,650	6.44%
Other assets	1,135	0.0%	1,771	0.0%
Deposits received	422,061	6.58%	1,139,953	6.79%
Other liabilities	850,945	0.0%	1,108,644	0.0%
Guarantees	33,876	0.0%	33,863	0.0%

The loans and guarantees are in Armenian Drams and US Dollars and repayable by 2027.

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

	2016 AMD'000	*2015 AMD'000*
Profit or loss		
Interest income	62,275	42,951
Interest expense	(43,675)	(64,119)

40. Related party transactions (continued)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

	Parent company		*Shareholder with significant influence*		*Subsidiaries of the parent company*		*Entities under common control and other related parties*		
	AMD'000	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***AMD'000***	***Average interest rate, %***	***Total AMD'000***
Statement of financial position									
Assets									
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	1,633,886	–	**1,633,886**
Loans and advances to banks	–	–	1,001,707	6.25%	–	–	–	–	**1,001,707**
Loans to customers	–	–	–	–	–	–	82,599,050	6.25%	**82,599,050**
Other asset	–	–	–	–	–	–	3,596	–	**3,596**
Liabilities									
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	1,554,397	–	**1,554,397**
Current accounts and deposits from customers									
- Current accounts and demand deposits	70,859	0.00%	326,386	0.00%	964,541	0.00%	32,025,131	0.00%	**33,386,917**
- Term deposits	–	–	–	–	1,227,222	3.20%	29,346,134	12.82%	**30,573,356**
Subordinated borrowings	–	–	–	–	–	–	5,920,428	6.00%	**5,920,428**
Other borrowings	–	–	14,103,304	9.08%	–	–	–	–	**14,103,304**
Other liabilities	–	–	20,765	0.00%	–	–	–	–	**20,765**
Items not recognised in the statement of financial position									
Guarantees given	–	–	–	–	–	–	17,927	0.00%	**17,927**
Profit (loss)									
Interest income	–	–	1,706	–	–	–	4,166,018	–	**4,167,724**
Interest expense	(28,196)	–	(1,281,883)	–	(41,595)	–	(3,924,377)	–	**(5,276,051)**
Other expense	–	–	(35,706)	–	–	–	–	–	**(35,706)**

40. Related party transactions (continued)

(c) Transactions with other related parties (continued)

The outstanding balances and the related average effective interest rates as at 31 December 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows:

	Parent company		*Shareholder with significant influence*		*Subsidiaries of the parent company*		*Entities under common control and other related parties*		
	AMD'000	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*Total AMD'000*
Statement of financial position									
Assets									
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	465,960	–	**465,960**
Available-for-sale financial assets	–	–	678,138	12.03%	–	–	–	–	**678,138**
Loans to customers	–	–	–	–	–	–	27,776,910	14.00%	**27,776,910**
Held-to-maturity investments	–	–	1,051,056	12.03%	–	–	–	–	**1,051,056**
Liabilities									
Financial instruments at fair value through profit or loss	–	–	–	–	–	–	473,034	–	**473,034**
Current accounts and deposits from customers									
- Current accounts and demand deposits	2,020,704	0.00%	1,444	0.00%	84,166	0.00%	3,667,836	0.00%	**5,774,150**
- Term deposits	–	–	–	–	2,916,150	3.52%	28,580,396	12.89%	**31,496,546**
Subordinated borrowings	–	–	–	–	–	–	5,932,070	6.00%	**5,932,070**
Other borrowings	–	–	9,796,186	13.29%	–	–	–	–	**9,796,186**
Items not recognised in the statement of financial position									
Guarantees received from related parties	–	–	8,740,522	–	–	–	–	0.00%	**8,740,522**
Guarantees given	–	–	–	–	–	–	18,504	0.00%	**18,504**
Not used Credit lines			967,500				–		**967,500**
Profit (loss)									
Interest income	–	–	–	–	–	–	2,640,209	–	**2,640,209**
Interest expense	–	–	(28,685)	–	(37,453)	–	(1,260,516)	–	**(1,326,654)**

41. Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

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

41. Financial assets and liabilities: fair values and accounting classifications (continued)

(a) Accounting classifications and fair values (continued)

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale, loans to customers, held-to-maturity investments and debt securities issued approximate their carrying values. As at 31 December 2016 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 106,458 thousand (2015: AMD 106,458 thousand) cannot be determined.

The table below sets out the carrying amounts and fair values of loans to customers, held-to-maturity investments and domestic bonds issued as at 31 December 2016:

	Carrying amount AMD'000	*Fair value AMD'000*
Loans to customers	499,288,522	492,389,794
Held-to-maturity investments	36,255,642	36,889,889
Debt securities issued	18,124,500	18,326,465
Total	**553,668,664**	**547,606,148**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

	Carrying amount AMD'000	*Fair value AMD'000*
Loans to customers	305,613,716	302,066,571
Held-to-maturity investments	19,570,705	18,933,331
Total	**325,184,421**	**320,999,902**

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 3.5% and 11.6%-16.4% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively;
- discount rates of 5.5%-12% are used for discounting future cash flows for liabilities.

(b) Fair value hierarchy

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

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

41. Financial assets and liabilities: fair values and accounting classifications (continued)

(b) Fair value hierarchy (continued)

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

AMD'000	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Derivative assets	–	3,130,071	–	**3,130,071**
- Derivative liabilities	–	(2,535,283)	–	**(2,535,283)**
Available-for-sale financial assets				
- Debt instruments	3,418,111	8,883,723	–	**12,301,834**
	3,418,111	**9,478,511**	**–**	**12,896,622**
Assets for which fair values are disclosed				
Loans to customers	–	–	492,389,794	**492,389,794**
Held-to-maturity investments	804,054	36,085,835	–	**36,889,889**
Debt securities issued	–	18,326,465	–	**18,326,465**
	804,054	**54,412,300**	**492,389,794**	**547,606,148**

The table below analyses financial instruments measured at fair value and financial instruments for which fair values are disclosed as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets and liabilities measured at fair value				
Financial instruments at fair value through profit or loss				
- Derivative assets	–	465,303	–	**465,303**
- Derivative liabilities	–	(582,560)	–	**(582,560)**
Available-for-sale financial assets				
- Debt instruments	–	10,172,143	–	**10,172,143**
	–	**10,054,886**	**–**	**10,054,886**
Assets for which fair values are disclosed				
Loans to customers	–	–	302,066,571	**302,066,571**
Held-to-maturity investments	–	18,933,331	–	**18,933,331**
	–	**18,933,331**	**302,066,571**	**320,999,902**

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Available-for-sale financial assets

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of Armenian Government debt securities. These securities are valued using yield curves which incorporate data observable in the market and published by CBA.

42. Events after reporting period

In January - March 2017 the Bank placed bonds with nominal amount of USD 14,540,500 with maturity in 2019 according to prospectus for up to USD 50,000,000 bond emission registered with CBA in third quarter of 2016.