# Ameriabank CJSC

## Financial statements

*for the year ended 31 December 2017*
*together with independent auditor's report*

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# Independent auditor’s 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 comprehensive income for the year ended 31 December 2017, the statement of financial position as at 31 December 2017, the statement of cash flows and the 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 2017 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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| Key audit matter | How our audit addressed it |
|---|---|
| *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.<br><br>Loan impairment allowance is a key audit matter due to both the significance of loans and advances to customers (70.8% of total assets of the Bank as at 31 December 2017) and subjectivity of underlying assumptions for impairment estimation. | We assessed 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.<br><br>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.<br><br>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. |

*Other information included in the Bank's 2017 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 the 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.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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*Auditor's responsibilities for the audit of the financial statements*

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

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

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

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

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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

20 March 2018

## Statement of comprehensive income
## for the year ended 31 December 2017

| | Notes | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|---|
| Interest income | 5 | 49,297,198 | 42,624,265 |
| Interest expense | 5 | (30,932,889) | (27,749,228) |
| **Net interest income** | | **18,364,309** | **14,875,037** |
| Fee and commission income | 6 | 3,577,025 | 2,866,115 |
| Fee and commission expense | 7 | (791,890) | (610,329) |
| **Net fee and commission income** | | **2,785,135** | **2,255,786** |
| Gain from cession | 8 | – | 1,096,824 |
| Net (loss)/gain on financial instruments at fair value through profit or loss | 9 | (1,976,234) | 1,055,909 |
| Net foreign exchange gain | 10 | 5,815,335 | 2,465,343 |
| Net gain on available-for-sale financial assets | | 424,708 | 736,347 |
| Other operating income | 11 | 2,159,541 | 1,561,640 |
| Other operating expenses | 12 | (1,892,480) | (1,461,489) |
| **Operating income** | | **25,680,314** | **22,585,397** |
| Impairment losses | 13 | (5,811,644) | (5,434,401) |
| **Operating income after impairment** | | **19,868,670** | **17,150,996** |
| Personnel expenses | | (6,240,813) | (5,675,290) |
| Other general administrative expenses | 14 | (4,091,161) | (3,746,410) |
| **Profit before income tax** | | **9,536,696** | **7,729,296** |
| Income tax expense | 15 | (1,886,709) | (1,522,610) |
| **Profit for the year** | | **7,649,987** | **6,206,686** |
| **Other comprehensive income, 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 | | 462,604 | 1,435,355 |
| - Net change in fair value transferred to profit or loss | | (424,708) | (736,347) |
| - Income tax effect | | (7,579) | (139,802) |
| **Total items that are or may be reclassified subsequently to profit or loss** | | **30,317** | **559,206** |
| **Other comprehensive income for the year, net of income tax** | | **30,317** | **559,206** |
| **Total comprehensive income for the year** | | **7,680,304** | **6,765,892** |

The financial statements as set out on pages 1 to 60 were approved by the Management Board on 20 March 2018 and were signed on its behalf by:

Gevorg Tarumyan
Acting General Director and Chief Financial Officer

Gohar Khachatryan
Chief Accountant

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 2017

| | Notes | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 16 | 107,616,368 | 135,280,872 |
| Financial instruments at fair value through profit or loss | 17 | 3,968,064 | 3,130,071 |
| Available-for-sale financial assets | 18 | 9,888,078 | 12,408,292 |
| Loans and advances to banks | 19 | 10,842,890 | 4,853,302 |
| Amounts receivable under reverse repurchase agreements | 20 | 8,675,394 | 6,446,797 |
| Loans and advances to customers | 21 | 479,640,981 | 513,218,709 |
| Held-to-maturity investments | | | |
| - Held by the Bank | 22 | 37,337,539 | 36,255,642 |
| - Pledged under sale and repurchase agreements | 22 | 5,968,305 | – |
| Property, equipment and intangible assets | 23 | 7,126,916 | 3,651,239 |
| Current tax asset | | – | 1,321,801 |
| Other assets | 24 | 6,657,562 | 2,796,698 |
| **Total assets** | | **677,722,097** | **719,363,423** |
| **Liabilities** | | | |
| Financial instruments at fair value through profit or loss | 17 | 686,306 | 2,535,283 |
| Deposits and balances from banks | 25 | 40,004,001 | 71,834,882 |
| Amounts payable under repurchase agreements | 26 | 6,121,693 | – |
| Current accounts and deposits from customers | 27 | 375,170,779 | 414,608,686 |
| Debt securities issued | 28 | 40,932,595 | 18,124,500 |
| Other borrowed funds | 29 | 98,128,094 | 102,735,039 |
| Subordinated borrowings | 29 | 40,919,768 | 40,811,255 |
| Current tax liability | | 990,256 | – |
| Deferred tax liability | 15 | 1,025,103 | 1,442,872 |
| Other liabilities | 30 | 3,841,631 | 2,873,138 |
| **Total liabilities** | | **607,820,226** | **654,965,655** |
| **Equity** | | | |
| Share capital | 31 | 32,087,360 | 32,087,360 |
| Share premium | | 7,755,179 | 7,755,179 |
| Revaluation reserve for available-for-sale financial assets | | 338,214 | 307,897 |
| Retained earnings | | 29,721,118 | 24,247,332 |
| **Total equity** | | **69,901,871** | **64,397,768** |
| **Total liabilities and equity** | | **677,722,097** | **719,363,423** |

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 2017

| | Notes | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest receipts | | 45,679,533 | 40,931,425 |
| Interest payments | | (28,386,448) | (23,817,560) |
| Fee and commission receipts | | 3,577,025 | 2,866,115 |
| Fee and commission payments | | (791,890) | (610,329) |
| Net payments from financial assets at fair value through profit and loss | | (1,933,348) | 676,407 |
| Net (payments)/receipts from foreign exchange transactions | | 3,601,374 | 2,724,237 |
| Other operating expenses payments | | (1,892,480) | (1,461,489) |
| Other operating income receipts | | 2,159,541 | 1,427,995 |
| Salaries and other payments to employees | | (5,726,848) | (5,754,347) |
| Other general administrative expenses payments | | (3,223,321) | (2,967,916) |
| **(Increase)/decrease in operating assets** | | | |
| Financial instruments at fair value through profit or loss | | (814,603) | (2,665,582) |
| Loans and advances to banks | | (5,003,619) | 2,754,468 |
| Amounts receivable under reverse repurchase agreements | | (2,223,000) | (464,617) |
| Loans and advances to customers | | 34,518,400 | (193,906,455) |
| Other assets | | (3,934,632) | (704,138) |
| **Increase/(decrease) in operating liabilities** | | | |
| Financial instruments at fair value through profit or loss | | (1,894,376) | 2,330,730 |
| Deposits and balances from banks | | (31,378,969) | 50,005,742 |
| Amounts payable under repurchase agreements | | 6,096,286 | (18,999,995) |
| Current accounts and deposits from customers | | (46,389,246) | 119,077,450 |
| Other liabilities | | 359,730 | (239,818) |
| **Net cash used in operating activities before income tax paid** | | **(37,600,891)** | **(28,797,677)** |
| Income tax paid | | – | (930,000) |
| **Cash flows from operations** | | **(37,600,891)** | **(29,727,677)** |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment and intangible assets | | (4,345,562) | (1,373,907) |
| Proceeds from sale of property and equipment and intangible assets | | 2,048 | 145,298 |
| Purchases of available-for-sale financial assets | | (17,533,115) | (15,698,772) |
| Proceeds from available-for-sale financial assets | | 20,417,703 | 15,036,412 |
| Purchases of held-to-maturity investments | | (79,345,696) | (38,114,289) |
| Proceeds from redemption of held-to-maturity investments | | 72,727,616 | 21,633,698 |
| Purchases of bonds of Armenian banks and credit organizations | | (612,754) | – |
| **Cash flows used in investing activities** | | **(8,689,760)** | **(18,371,560)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | 31 | (2,176,201) | (1,685,286) |
| Receipts of other borrowed funds | | 67,496,831 | 77,618,450 |
| Repayment of other borrowed funds | | (72,097,598) | (53,479,054) |
| Proceeds from debt securities issued | | 22,504,610 | 17,815,044 |
| **Cash flows from financing activities** | | **15,727,642** | **40,269,154** |
| **Net decrease in cash and cash equivalents** | | **(30,563,009)** | **(7,830,083)** |
| Effect of changes in exchange rates on cash and cash equivalents | | 2,898,505 | 397,638 |
| Cash and cash equivalents as at the beginning of the year | | **135,280,872** | **142,713,317** |
| **Cash and cash equivalents as at the end of the year** | 16 | **107,616,368** | **135,280,872** |

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 2017

| *AMD'000* | *Notes* | *Share capital* | *Share premium* | *Revaluation reserve for available-for-sale financial assets* | *Retained earnings* | *Total equity* |
|---|---|---|---|---|---|---|
| **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 | 31 | – | – | – | (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** |
| **Balance as at 1 January 2017** | | **32,087,360** | **7,755,179** | **307,897** | **24,247,332** | **64,397,768** |
| **Total comprehensive income** | | | | | | |
| Profit for the year | | – | – | – | 7,649,987 | **7,649,987** |
| Other comprehensive income for the year | | – | – | 30,317 | – | **30,317** |
| **Total comprehensive income for the year** | | **–** | **–** | **30,317** | **7,649,987** | **7,680,304** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Dividends | 31 | – | – | – | (2,176,201) | **(2,176,201)** |
| **Total transactions with owners** | | **–** | **–** | **–** | **(2,176,201)** | **(2,176,201)** |
| **Balance as at 31 December 2017** | | **32,087,360** | **7,755,179** | **338,214** | **29,721,118** | **69,901,871** |

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 20,749 shares of the Bank.

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 2017 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 14 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 2017 was 667 (2016: 597).

Related party transactions are detailed in Note 37.

## (b) Armenian business environment

2017 has been rather positive for Armenian economy. GDP growth exceeded forecasts from previous year almost twice and is expected to be under 7% for the year. Main contributors for this growth were Trade, Manufacturing and Financial intermediation. CPI was much stable throughout the year at around 1% for 2017; the same can be said about AMD/USD exchange rate. Foreign trade registered above 20% growth both for exports and imports. After some contraction in 2016, remittances also registered two-digit growth over the year. About 5% increase is observed in foreign reserves.

Given all above, management believes that it is taking appropriate measures to support the sustainability of the Bank's business under the current circumstances as well as ensuring relevant buffers to observe potential shocks in the near future.

# 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 2017 and 31 December 2016, were 484.1 AMD and 483.94 AMD to 1 USD, and 580.1 AMD and 512.2 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 and advances to customers” and Note 38 “Financial assets and liabilities: fair values and accounting policies”.

### (e) Changes in accounting policies and presentation

***Changes in accounting policies***

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank has provided the information for both the current and the comparative period in Note 39.

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank’s financial position and performance as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

## 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.

### (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.

## 3. Significant accounting policies (continued)

### (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.

#### *(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.

# 3. Significant accounting policies (continued)

## (c) Financial instruments (continued)

### *(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. Interest in relation to an debt financial asset at fair value through profit or loss is recognized in profit or loss as interest income using the effective interest method;
- 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.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

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.

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

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

#### *(x) Offsetting*

Financial assets and liabilities are offset and the net amount 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 | 5 to 10 years |
| Fixtures and fittings | 5 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.

# 3. Significant accounting policies (continued)

## (g) Impairment (continued)

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.

### *(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.

*Renegotiated loans*

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

The accounting treatment of such restructuring is as follows:

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

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

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.

# 3. Significant accounting policies (continued)

## (g) Impairment (continued)

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.

### *(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.

# 3. Significant accounting policies (continued)

## (j) Credit related commitments (continued)

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.

## (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.

# 3. Significant accounting policies (continued)

## (m) Taxation (continued)

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.

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.

# 3. Significant accounting policies (continued)

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

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Bank plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Bank is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

*(a) Classification and measurement*

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect” basis are measured at amortized cost;
- Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Bank expects to continue measuring at fair value all financial assets currently held at fair value.

Trading debt securities will continue to be classified as FVPL. Debt and equity securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Bank expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. HTM debt securities will be measured at amortized costs. All loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

*(b) Impairment*

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL 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 is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. At this point Bank has finalized segmenting, according to which for ECL calculation loan portfolio will be divided into three groups: Loans to legal entities, Mortgage loans and Other retail/consumer loans. PD, EAD and LDG models are currently under finalization. Macro parameters to be used in PD model are also agreed, now final testing is underway. When estimating the ECLs, the Bank will consider three scenarios: base, upside and downside scenarios.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

# 3. Significant accounting policies (continued)

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

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank currently does not expect a material effect from initial application of IFRS 15.

*IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Bank does not expect a material effect from application of these amendments.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

***Annual improvements 2014-2016 cycle (issued in December 2016)***

These improvements include:

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

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 recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its financial statements.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

## 3. Significant accounting policies (continued)

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

## 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 2017 or 2016.

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

| ***2017*** | ***Retail banking AMD'000*** | ***Corporate banking AMD'000*** | ***Trading and IB AMD'000*** | ***Total AMD'000*** |
|---|---|---|---|---|
| Net interest income (expense) | (2,737,694) | 16,375,403 | 4,726,600 | **18,364,309** |
| Net non-interest income | 1,482,223 | 2,833,507 | 3,000,275 | **7,316,005** |
| Inter-segment revenue (expense) | 12,066,784 | (8,034,602) | (4,032,182) | **–** |
| **Operating profit** | **10,811,313** | **11,174,308** | **3,694,693** | **25,680,314** |
| Impairment losses | (703,438) | (5,108,206) | – | **(5,811,644)** |
| Depreciation and amortization | (647,915) | (108,856) | (111,072) | **(867,843)** |
| Personnel and other general administrative expenses | (5,941,305) | (2,356,313) | (1,166,513) | **(9,464,131)** |
| **Profit before income tax** | **3,518,655** | **3,600,933** | **2,417,108** | **9,536,696** |
| Income tax expense | (696,119) | (712,397) | (478,193) | **(1,886,709)** |
| **Profit for the year** | **2,822,536** | **2,888,536** | **1,938,915** | **7,649,987** |

| ***2017*** | ***Retail banking AMD'000*** | ***Corporate banking AMD'000*** | ***Trading and IB AMD'000*** | ***Total AMD'000*** |
|---|---|---|---|---|
| Interest earning financial assets | 78,557,262 | 412,689,748 | 74,240,375 | **565,487,385** |
| Interest bearing financial liabilities | 248,023,707 | 335,400,570 | 17,535,534 | **600,959,811** |

## 4. Segment information (continued)

Interest earning assets include available-for-sale financial assets, debt instruments at fair value through profit or loss, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances to customers 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.

In 2017 the Bank reviewed the methodology of Internal Funds transfer pricing policy (allocation of equity among segments has been changed). This change had its effect on Intersegment revenue (expense) line in 2017. Comparative segment information for 2016 was represented accordingly to align with the updated methodology.

| ***2016*** | ***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) | 8,899,636 | (6,742,078) | (2,157,558) | **–** |
| **Operating profit** | **8,317,953** | **10,118,324** | **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** | **1,994,047** | **2,919,605** | **2,815,644** | **7,729,296** |
| Income tax expense | (100,195) | (867,756) | (554,659) | **(1,522,610)** |
| **Profit for the year** | **1,893,852** | **2,051,849** | **2,260,985** | **6,206,686** |

| ***2016*** | ***Retail banking AMD'000*** | ***Corporate banking AMD'000*** | ***Trading and IB AMD'000*** | ***Total AMD'000*** |
|---|---|---|---|---|
| Interest earning 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 earning assets include available-for-sale financial assets, interest bearing loans and advances to banks, amounts receivable under reverse repurchase agreements, gross loans and advances 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 instruments outside Armenia.

## 5. Net interest income

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| **Interest income** | | |
| Loans to legal entities and individuals | 43,010,061 | 36,883,039 |
| Held-to-maturity investments | 3,016,721 | 1,853,537 |
| Available-for-sale financial assets | 1,059,197 | 1,228,587 |
| Amounts receivable under reverse repurchase agreements | 581,451 | 611,213 |
| Receivables from factoring | 538,402 | 768,153 |
| Receivables from letters of credit | 519,822 | 752,499 |
| Loans and advances to banks | 308,430 | 265,806 |
| Debt instruments at fair value through profit or loss | 40,496 | – |
| Other | 76,079 | 44,421 |
| | **49,150,659** | **42,407,255** |
| Receivables from finance leases | 146,539 | 217,010 |
| | **49,297,198** | **42,624,265** |
| **Interest expense** | | |
| Current accounts and deposits from customers | 15,143,588 | 15,765,834 |
| Other borrowed funds and subordinated borrowings | 10,045,393 | 8,766,471 |
| Deposits and balances from banks | 3,504,848 | 1,672,840 |
| Debt securities issued | 1,770,695 | 552,984 |
| Payables under letters of credit | 408,406 | 445,940 |
| Amounts payable under repurchase agreements | 30,182 | 520,236 |
| Other | 29,777 | 24,923 |
| | **30,932,889** | **27,749,228** |
| **Net interest income** | **18,364,309** | **14,875,037** |

## 6. Fee and commission income

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| Plastic card servicing fees | 1,618,717 | 1,274,114 |
| Money transfers | 755,527 | 519,754 |
| Cash withdrawal, account service and distance system services | 687,960 | 465,820 |
| Guarantee and letter of credit issuance | 258,080 | 319,171 |
| Brokerage services | 132,355 | 184,142 |
| Settlement operations | 83,937 | 54,782 |
| Other | 40,449 | 48,332 |
| | **3,577,025** | **2,866,115** |

## 7. Fee and commission expense

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| Plastic card maintenance | 592,739 | 407,321 |
| Money transfers | 120,513 | 104,680 |
| Guarantee and letter of credit issuance | 48,203 | 71,176 |
| Other | 30,435 | 27,152 |
| | **791,890** | **610,329** |

## 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 1,582,855 thousand from consideration receivable has been repaid.

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

Net loss on financial instruments at fair value through profit or loss in amount of AMD (1,976,234) thousand (2016: net gain in amount of AMD 1,055,909 thousand) includes revaluation of currency and interest rate derivative instruments, which are used for economic hedging of open currency and interest rate positions of the Bank.

## 10. Net foreign exchange gain

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Net gain on spot transactions | 3,601,374 | 2,724,237 |
| Net gain/(loss) from revaluation of financial assets and liabilities | 2,213,961 | (258,894) |
| | **5,815,335** | **2,465,343** |

## 11. Other operating income

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Income from fines and penalties | 1,276,206 | 1,337,303 |
| Income from consulting services | 511,270 | 24,900 |
| Other income | 372,065 | 199,437 |
| | **2,159,541** | **1,561,640** |

## 12. Other operating expenses

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Payment system expenses | 487,142 | 359,890 |
| Guarantee payments to Armenian Deposit Guarantee Fund | 408,010 | 311,351 |
| Software maintenance | 288,189 | 250,323 |
| Agent fee | 172,030 | 72,267 |
| Fees for terminal usage | 94,384 | 125,533 |
| Financial system mediator | 71,545 | 51,380 |
| Encashment | 52,318 | 48,134 |
| Monitoring services | 39,694 | 47,800 |
| Other expenses | 279,168 | 194,811 |
| | **1,892,480** | **1,461,489** |

## 13. Impairment losses

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Loans and advances to customers | 5,688,706 | 5,396,448 |
| Other assets | 122,938 | 37,953 |
| | **5,811,644** | **5,434,401** |

## 14. Other general administrative expenses

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Operating lease expense | 1,042,965 | 1,019,034 |
| Depreciation and amortization | 867,843 | 778,494 |
| Advertising and marketing | 674,755 | 631,039 |
| Repairs and maintenance | 316,976 | 258,883 |
| Other personnel expenses | 189,304 | 163,086 |
| Professional services | 157,877 | 98,849 |
| Security | 136,252 | 113,331 |
| Travel expenses | 117,628 | 87,173 |
| Communications and information services | 106,513 | 102,925 |
| Electricity and utilities | 94,490 | 87,427 |
| Charity and sponsorship | 90,384 | 118,550 |
| Training and education | 39,044 | 33,370 |
| Office supplies | 30,770 | 28,421 |
| Insurance | 30,106 | 29,501 |
| Taxes other than on payroll and income | 25,497 | 32,081 |
| Representation expenses | 16,902 | 20,532 |
| Other | 153,855 | 143,714 |
| | **4,091,161** | **3,746,410** |

## 15. Income tax expense

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Current tax expense** | | |
| Current tax charge | 2,353,859 | 765,182 |
| Adjustments in respect of current income tax of previous year | (41,802) | (66,398) |
| **Deferred tax expense** | | |
| Deferred taxation movement due to origination and reversal of temporary differences | (425,348) | 823,826 |
| **Total income tax expense** | **1,886,709** | **1,522,610** |

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

### Reconciliation of effective tax rate

| | *2017 AMD'000* | *%* | *2016 AMD'000* | *%* |
|---|---|---|---|---|
| **Profit before tax** | **9,536,696** | | **7,729,296** | |
| Income tax at the applicable tax rate | 1,907,339 | 20% | 1,545,859 | 20% |
| Prior period income tax correction | (41,802) | | (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) | 10,338 | | (17,932) | |
| Non-deductible expenses | 10,834 | | 61,081 | |
| **Total income tax expense** | **1,886,709** | | **1,522,610** | |

***(i) 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 2017 and 2016. 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 2017 and 2016 are presented as follows:

| *2017 AMD'000* | *Balance 1 January 2017* | *Recognized in profit or loss* | *Recognized in other comprehensive income* | *Balance 31 December 2017* |
|---|---|---|---|---|
| Financial instruments at fair value through profit or loss | (102,874) | 72,593 | – | (30,281) |
| Available-for-sale financial assets | (76,977) | – | (7,579) | (84,556) |
| Allowance for other receivables and other provisions | (197,664) | (91) | – | (197,755) |
| Loans and advances to customers | (1,336,197) | 260,909 | – | (1,075,288) |
| Property and equipment | (45,152) | (23,182) | – | (68,334) |
| Other assets | 10,500 | 14,743 | – | 25,243 |
| Other liabilities | 362,234 | 86,324 | – | 448,558 |
| Other borrowed funds | (56,742) | 14,052 | – | (42,690) |
| **Total deferred tax liability** | **(1,442,872)** | **425,348** | **(7,579)** | **(1,025,103)** |

| *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 and advances 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) |
| **Total deferred tax liability** | **(479,244)** | **(823,826)** | **(139,802)** | **(1,442,872)** |

## 16. Cash and cash equivalents

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Cash on hand | 18,139,767 | 12,826,023 |
| Nostro accounts with the CBA, including obligatory reserves | 76,917,450 | 104,878,940 |
| **Nostro accounts with other banks** | | |
| - rated AA- to AA+ | 12,922 | 17,767 |
| - rated A- to A+ | 7,406,733 | 10,125,848 |
| - rated from BB- to BBB+ | 5,095,603 | 7,210,640 |
| - not rated | 43,893 | 221,654 |
| **Total nostro accounts with other banks** | **12,559,151** | **17,575,909** |
| **Total cash and cash equivalents** | **107,616,368** | **135,280,872** |

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

As of 31 December 2017 included in Nostro accounts with the CBA is the amount of obligatory reserve of AMD 66,516,596 thousand (2016: AMD 48,969,250 thousand).

## 16. Cash and cash equivalents (continued)

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

As at 31 December 2017 the Bank has placement with one bank (2016: one), whose balances exceed 10% of the Bank's equity. The gross value of these balances as at 31 December 2017 is AMD 7,406,733 thousand (2016: AMD 7,041,151 thousand).

As at 31 December 2017 and 31 December 2016 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

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Assets** | | |
| **Debt and other fixed-income trading instruments** | | |
| Government securities of the Republic of Armenia | 1,443,746 | – |
| Government Eurobonds of the Republic of Armenia | 521,780 | – |
| Corporate bonds of the Armenian companies | 1,049,673 | – |
| **Derivative financial instruments** | | |
| Interest rate swaps | 62,835 | 40,590 |
| Currency swaps | 890,030 | 3,089,481 |
| | **3,968,064** | **3,130,071** |
| **Liabilities** | | |
| **Derivative financial instruments** | | |
| Currency swaps | 686,306 | 2,535,283 |
| | **686,306** | **2,535,283** |

### Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2017 and 2016 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*** | |
|---|---|---|---|---|
| | *2017 AMD'000* | *2016 AMD'000* | *2017 AMD'000* | *2016 AMD'000* |
| Pay fixed in USD, receive floating in USD | 62,835 | 40,590 | 6,931,432 | 11,218,609 |

As at 31 December 2017, the Bank has four interest rate swap contracts. 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 2017 the Bank has 30 (2016: 19) currency swap agreements with nine (2016: eight) counterparties in AMD, USD, EUR and Russian Roubles. As at December 31 2017, AMD equivalent of total notional amount of these agreements comprises AMD 91,882,316 thousand (2016: AMD 161,717,608 thousand).

## 18. Available-for-sale financial assets

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| **Held by the Bank** | | |
| **Debt and other fixed-income instruments** | | |
| **- Government bonds** | | |
| Government securities of the Republic of Armenia | 4,712,578 | 7,174,650 |
| Government Eurobonds of the Republic of Armenia | 1,083,830 | – |
| Government Eurobonds of other countries | 2,942,639 | 1,066,963 |
| **- Corporate bonds** | | |
| Corporate bonds of foreign companies | – | 3,418,111 |
| Corporate bonds of Armenian companies | 1,042,573 | 642,110 |
| **Equity investments** | | |
| - Unquoted equity securities | 106,458 | 106,458 |
| | **9,888,078** | **12,408,292** |

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

| Name | Country of incorporation | Main activity | % Controlled 2017 | % Controlled 2016 | 2017 AMD'000 | 2016 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** |

### 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

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| **Due from the CBA** | | |
| Credit card settlement deposit with the CBA | 1,423,500 | 1,220,000 |
| **Debt instruments of Armenian banks and credit organizations** | | |
| Bonds of Armenian banks and credit organizations | 628,936 | – |
| **Loans and deposits with other banks** | | |
| Armenian banks | 8,726,923 | 2,500,839 |
| OECD banks | 63,531 | 1,078,322 |
| Foreign other banks | – | 54,141 |
| **Total loans and deposits with other banks** | **8,790,454** | **3,633,302** |
| **Total loans and advances to banks** | **10,842,890** | **4,853,302** |

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

Included in loans and deposits with OECD banks and other foreign banks AMD 62,933 thousand (2016: AMD 117,053 thousand) represents deposits pledged for letters of credit, guarantees and credit cards.

### Concentration of loans and advances to banks

As at 31 December 2017 the Bank has one bank (2016: no bank), whose balances exceed 10% of equity. As at 31 December 2017 the balance amounted to AMD 8,726,923 thousand.

## 20. Amounts receivable under reverse repurchase agreements

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| Amounts receivable from Armenian banks and other financial institutions | 8,675,394 | 6,446,797 |
| | **8,675,394** | **6,446,797** |

### Collateral

As at 31 December 2017 and 31 December 2016 amounts receivable under reverse repurchase agreements were collateralized by government securities with fair value of AMD 9,112,667 thousand (2016: 6,814,064 thousand).

## 21. Loans and advances to customers

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| Loans to legal entities | 416,715,125 | 461,278,112 |
| Loans to individuals | 61,889,809 | 46,996,782 |
| Receivables from letter of credit | 4,129,748 | 7,722,748 |
| Receivables from finance lease | 1,759,470 | 2,101,716 |
| Receivables from factoring | 6,752,241 | 4,191,244 |
| **Gross loans and advances to customers** | **491,246,393** | **522,290,602** |
| Impairment allowance | (11,605,412) | (9,071,893) |
| **Net loans and advances to customers** | **479,640,981** | **513,218,709** |

### (a) Loans to legal entities and individuals

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| **Loans to legal entities** | | |
| Loans to large companies | 333,102,167 | 384,267,796 |
| Loans to small and medium size companies | 83,612,958 | 77,010,316 |
| **Total loans to legal entities** | **416,715,125** | **461,278,112** |
| **Loans to individuals** | | |
| Mortgage loans | 28,601,855 | 20,051,103 |
| Credit cards | 19,024,780 | 18,403,846 |
| Consumer loans | 11,167,704 | 5,454,847 |
| Auto loans | 2,040,600 | 2,043,068 |
| Business loans to individuals | 1,054,870 | 1,043,918 |
| **Total loans to individuals** | **61,889,809** | **46,996,782** |
| **Gross loans to legal entities and individuals** | **478,604,934** | **508,274,894** |
| Impairment allowance | (11,294,203) | (8,986,372) |
| **Net loans to legal entities and individuals** | **467,310,731** | **499,288,522** |

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* | | | | | |
|---|---|---|---|---|---|---|
| | *High grade 2017 AMD'000* | *Standard grade 2017 AMD'000* | *Sub-standard grade 2017 AMD'000* | *Past due but not impaired 2017 AMD'000* | *Individually impaired 2017 AMD'000* | *Total 2017 AMD'000* |
| **Net loans to legal entities** | 34,145,112 | 358,105,168 | 579,047 | 3,811,355 | 9,298,154 | **405,938,836** |

## 21. Loans and advances to customers (continued)

### (a) Loans to legal entities and individuals (continued)

| | *Neither past due nor impaired* | | | | | |
|---|---|---|---|---|---|---|
| | ***High grade 2016 AMD'000*** | ***Standard grade 2016 AMD'000*** | ***Sub-standard grade 2016 AMD'000*** | ***Past due but not impaired 2016 AMD'000*** | ***Individually impaired 2016 AMD'000*** | ***Total 2016 AMD'000*** |
| **Net loans to legal entities** | 145,465,085 | 291,807,705 | 2,052,570 | 2,871,395 | 10,591,029 | **452,787,784** |

As at 31 December 2017 the loans to legal entities include loans provided to related parties amounting to AMD 32,150,069 thousand (2016: AMD 72,955,885 thousand) which has been collateralized with deposits amounting to AMD 32,204,509 thousand (2016: AMD 73,171,153 thousand).

Movements in the loan impairment allowance by classes of loans to legal entities and individuals for the year 2017 are as follows:

| | ***Loans to legal entities AMD'000*** | ***Loans to individuals AMD'000*** | ***Total AMD'000*** |
|---|---|---|---|
| **Balance at the beginning of the year** | **8,490,328** | **496,044** | **8,986,372** |
| Net charge | 5,081,973 | 375,824 | **5,457,797** |
| Recovery of loans previously written off | 161,236 | 188,483 | **349,719** |
| Write-offs | (2,957,248) | (542,437) | **(3,499,685)** |
| **Balance at the end of the year** | **10,776,289** | **517,914** | **11,294,203** |

Movements in the loan impairment allowance by classes of loans to legal entities and individuals for the 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 and advances to customers (continued)

## (a) Loans to legal entities and individuals (continued)

### *(i) Credit quality of loans to legal entities and individuals*

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2017:

| | *Gross loans AMD'000* | *Impairment allowance AMD'000* | *Net loans AMD'000* | *Impairment allowance to gross loans %* |
|---|---|---|---|---|
| **Loans to corporate customers** | | | | |
| **Loans to large corporates** | | | | |
| **Not impaired loans** | | | | |
| - not overdue | 321,466,902 | 2,951,032 | 318,515,870 | 0.92% |
| - overdue more than 90 days | 127,085 | 1,296 | 125,789 | 1.02% |
| **Total not impaired loans** | **321,593,987** | **2,952,328** | **318,641,659** | **0.92%** |
| **Impaired loans** | | | | |
| - not overdue | 5,832,937 | 1,386,725 | 4,446,212 | 23.77% |
| - overdue more than 90 days | 5,675,243 | 3,171,094 | 2,504,149 | 55.88% |
| **Total impaired loans** | **11,508,180** | **4,557,819** | **6,950,361** | **39.61%** |
| **Total loans to large corporates** | **333,102,167** | **7,510,147** | **325,592,020** | **2.25%** |
| **Loans to small and medium size companies** | | | | |
| **Not impaired loans** | | | | |
| - not overdue | 75,594,081 | 1,280,622 | 74,313,459 | 1.69% |
| - overdue less than 30 days | 1,595,583 | 27,764 | 1,567,819 | 1.74% |
| - 31-90 days overdue | 616,922 | 10,734 | 606,188 | 1.74% |
| - overdue more than 90 days | 1,538,325 | 26,767 | 1,511,558 | 1.74% |
| **Total not impaired loans** | **79,344,911** | **1,345,887** | **77,999,024** | **1.70%** |
| **Impaired loans** | | | | |
| - overdue more than 90 days | 4,268,047 | 1,920,255 | 2,347,792 | 44.99% |
| **Total impaired loans** | **4,268,047** | **1,920,255** | **2,347,792** | **44.99%** |
| **Total loans to small and medium size companies** | **83,612,958** | **3,266,142** | **80,346,816** | **3.91%** |
| **Total loans to corporate customers** | **416,715,125** | **10,776,289** | **405,938,836** | **2.59%** |

## 21. Loans and advances to customers (continued)

### (a) Loans to legal entities and individuals (continued)

| | *Gross loans AMD'000* | *Impairment allowance AMD'000* | *Net loans AMD'000* | *Impairment allowance to gross loans %* |
|---|---|---|---|---|
| **Loans to retail customers** | | | | |
| **Mortgage loans** | | | | |
| - not overdue | 27,823,344 | 55,646 | 27,767,698 | 0.20% |
| - overdue less than 30 days | 21,143 | 1,717 | 19,426 | 8.12% |
| - 31-90 days overdue | 137,186 | 52,000 | 85,186 | 37.90% |
| - overdue more than 90 days | 620,182 | 139,441 | 480,741 | 22.48% |
| **Total mortgage loans** | **28,601,855** | **248,804** | **28,353,051** | **0.87%** |
| **Credit cards** | | | | |
| - not overdue | 17,531,427 | 37,611 | 17,493,816 | 0.21% |
| - overdue less than 30 days | 52,436 | 6,033 | 46,403 | 11.51% |
| - 31-90 days overdue | 45,328 | 14,822 | 30,506 | 32.70% |
| - overdue more than 90 days | 1,395,589 | 36,721 | 1,358,868 | 2.63% |
| **Total credit cards** | **19,024,780** | **95,187** | **18,929,593** | **0.50%** |
| **Business loans** | | | | |
| - not overdue | 957,333 | 15,222 | 942,111 | 1.59% |
| - 31-90 days overdue | 97,537 | 1,550 | 95,987 | 1.59% |
| **Total business loans** | **1,054,870** | **16,772** | **1,038,098** | **1.59%** |
| **Auto loans** | | | | |
| - not overdue | 2,011,391 | 4,023 | 2,007,368 | 0.20% |
| - overdue less than 30 days | 6,847 | 523 | 6,324 | 7.64% |
| - 31-90 days overdue | 2,216 | 170 | 2,046 | 7.67% |
| - overdue more than 90 days | 20,146 | 42 | 20,104 | 0.21% |
| **Total auto loans** | **2,040,600** | **4,758** | **2,035,842** | **0.23%** |
| **Consumer loans** | | | | |
| - not overdue | 10,839,229 | 21,679 | 10,817,550 | 0.20% |
| - overdue less than 30 days | 6,009 | 475 | 5,534 | 7.90% |
| - 31-90 days overdue | 71,366 | 11,245 | 60,121 | 15.76% |
| - overdue more than 90 days | 251,100 | 118,994 | 132,106 | 47.39% |
| **Total consumer loans** | **11,167,704** | **152,393** | **11,015,311** | **1.36%** |
| **Total loans to retail customers** | **61,889,809** | **517,914** | **61,371,895** | **0.84%** |
| **Total loans to legal entities and individuals** | **478,604,934** | **11,294,203** | **467,310,731** | **2.36%** |

As at 31 December 2017 not impaired loans to large companies include one loan with individual signs of impairment with gross balance in amount of AMD 127,085 thousand and impairment allowance of AMD 1,296 thousand.

As at 31 December 2017 not impaired loans to small and medium size companies include eight loans with individual signs of impairment with gross balance in amount of AMD 2,747,775 thousand and impairment allowance of AMD 47,811 thousand.

## 21. Loans and advances to customers (continued)

### (a) Loans to legal entities and individuals (continued)

The following table provides information on the credit quality of loans to legal entities and individuals as at 31 December 2016:

| | *Gross loans AMD'000* | *Impairment allowance AMD'000* | *Net loans AMD'000* | *Impairment allowance to gross loans %* |
|---|---|---|---|---|
| **Loans corporate customers** | | | | |
| **Loans to large corporates** | | | | |
| **Not impaired loans** | | | | |
| - not overdue | 373,157,051 | 2,435,727 | 370,721,324 | 0.65% |
| - overdue more than 90 days | 742,450 | 7,795 | 734,655 | 1.05% |
| **Total not impaired loans** | **373,899,501** | **2,443,522** | **371,455,979** | **0.65%** |
| **Impaired loans** | | | | |
| - not overdue | 4,162,141 | 277,347 | 3,884,794 | 6.66% |
| - overdue more than 90 days | 6,206,154 | 2,955,182 | 3,250,972 | 47.62% |
| **Total impaired loans** | **10,368,295** | **3,232,529** | **7,135,766** | **31.18%** |
| **Total loans to large corporates** | **384,267,796** | **5,676,051** | **378,591,745** | **1.48%** |
| **Loans to small and medium size companies** | | | | |
| **Not impaired loans** | | | | |
| - not overdue | 69,646,205 | 1,042,169 | 68,604,036 | 1.50% |
| - overdue less than 30 days | 567,198 | 8,734 | 558,464 | 1.54% |
| - 31-90 days overdue | 996,740 | 15,350 | 981,390 | 1.54% |
| - overdue more than 90 days | 606,275 | 9,389 | 596,886 | 1.55% |
| **Total not impaired loans** | **71,816,418** | **1,075,642** | **70,740,776** | **1.50%** |
| **Impaired loans** | | | | |
| - not overdue | 544,082 | 193,350 | 350,732 | 35.54% |
| - 31-90 days overdue | 29,384 | 9,253 | 20,131 | 31.49% |
| - overdue more than 90 days | 4,620,432 | 1,536,032 | 3,084,400 | 33.24% |
| **Total impaired loans** | **5,193,898** | **1,738,635** | **3,455,263** | **33.47%** |
| **Total loans to small and medium size companies** | **77,010,316** | **2,814,277** | **74,196,039** | **3.65%** |
| **Total loans to corporate customers** | **461,278,112** | **8,490,328** | **452,787,784** | **1.84%** |

## 21. Loans and advances to customers (continued)

### Loans to legal entities and individuals (continued)

| | *Gross loans AMD'000* | *Impairment allowance AMD'000* | *Net loans AMD'000* | *Impairment allowance to gross loans %* |
|---|---|---|---|---|
| **Loans to retail customers** | | | | |
| **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% |
| - overdue more than 90 days | 701,611 | 105,264 | 596,347 | 15.00% |
| **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% |
| - overdue more than 90 days | 1,586,369 | 131,825 | 1,454,544 | 8.31% |
| **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% |
| - overdue more than 90 days | 341,418 | 7,968 | 333,450 | 2.33% |
| **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% |
| - overdue more than 90 days | 16,447 | 1,422 | 15,025 | 8.65% |
| **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% |
| - overdue more than 90 days | 248,171 | 68,944 | 179,227 | 27.78% |
| **Total consumer loans** | **5,454,847** | **87,269** | **5,367,578** | **1.60%** |
| **Total loans to retail customers** | **46,996,782** | **496,044** | **46,500,738** | **1.06%** |
| **Total loans to legal entities and individuals** | **508,274,894** | **8,986,372** | **499,288,522** | **1.77%** |

As at 31 December 2016 not impaired loans to large companies include four loans with individual signs of impairment with gross balance in amount of AMD 2,481,773 thousand and impairment allowance of AMD 26,059.

As at 31 December 2016 not impaired loans to small and medium size companies include nine loans with individual signs of impairment with gross balance in amount of AMD 1,166,677 thousand and impairment allowance of AMD 17,966 thousand.

#### *(ii) Key assumptions and judgments for estimating the loan impairment*

*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.

## 21. Loans and advances to customers (continued)

### (a) Loans to legal entities and individuals (continued)

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.

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.

*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.

#### *(iii) Individually impaired loans*

Interest income accrued on individually impaired loans for the year ended 31 December 2017 comprised AMD 786,780 thousand (2016: AMD 740,969 thousand).

#### *(iv) Analysis of collateral*

*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 2017 amounts to AMD 12,576,099 thousand (2016: AMD 10,835,708 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.

## 21. Loans and advances to customers (continued)

### (a) Loans to legal entities and individuals (continued)

*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 2017 consumer loans are secured by real estate, movable property, salary, cash and guarantees. Other loans to individuals are mainly secured by gold.

*Repossessed collateral*

During the year 2017, the Bank obtained certain assets by taking possession of collateral for loans to legal entities with a net carrying amount of AMD 617,777 thousand (2016: AMD 244,754 thousand). As at 31 December 2017 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.

#### *(v) Industry and geographical analysis of the loans to legal entities and individuals*

Loans were issued to finance the following economic sectors:

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Wholesale trade | 76,026,834 | 47,417,214 |
| Finance and investment | 74,110,288 | 77,261,906 |
| Mining/metallurgy | 51,048,122 | 28,408,361 |
| Hotel service | 32,463,343 | 25,468,851 |
| Construction | 30,072,853 | 84,189,991 |
| Agriculture, forestry and timber | 27,180,750 | 23,843,777 |
| Food and beverage | 21,641,394 | 20,163,246 |
| Retail trade | 21,081,805 | 17,034,146 |
| Energy | 17,184,852 | 25,620,351 |
| Real estate | 13,297,236 | 50,249,429 |
| Communication services | 13,161,817 | 22,310,945 |
| Manufacturing | 9,459,381 | 9,608,698 |
| Transportation | 7,827,878 | 10,171,744 |
| Municipal authorities | – | 160,379 |
| Other | 22,158,572 | 19,369,074 |
| Loans to individuals | 61,889,809 | 46,996,782 |
| | **478,604,934** | **508,274,894** |
| Impairment allowance | (11,294,203) | (8,986,372) |
| | **467,310,731** | **499,288,522** |

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

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Armenia | 312,607,979 | 266,046,599 |
| OECD and EU | 46,222,319 | 141,973,028 |
| Other foreign countries | 47,108,538 | 44,768,157 |
| | **405,938,836** | **452,787,784** |

#### *(vi) Significant credit exposures*

As at 31 December 2017 the Bank has seventeen borrowers or groups of connected borrowers (2016: twelve), whose loan balances exceed 10% of the Bank's equity. The exposure on these loans (net of cash collateral received) as at 31 December 2017 is AMD 163,847,088 thousand (2016: AMD 108,667,191 thousand).

# 21. Loans and advances to customers (continued)

## (a) Loans to legal entities and individuals (continued)

### *(vii) Loan maturities*

The maturity of the loan portfolio is presented in Note 32 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## (b) Receivables from letters of credit

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Receivables from letters of credit, gross amount | 4,129,748 | 7,722,748 |
| Impairment allowance | (8,259) | (15,445) |
| | **4,121,489** | **7,707,303** |

As at 31 December 2017 the Bank has no customers (2016: none), whose balances exceed 10% of the Bank's equity.

Movements in impairment allowance for the year 2017 and 2016 are as follows:

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Balance at the beginning of the year** | **15,445** | **1,246,423** |
| Net charge | (7,186) | 280,364 |
| Write-offs | – | (1,511,342) |
| **Balance at the end of the year** | **8,259** | **15,445** |

### *(i) Quality analysis of letters of credit*

As at 31 December 2017 the Bank does not have any impaired or overdue amounts receivable from letters of credit.

## (c) Receivables from finance leases

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Gross investment in finance leases receivable** | | |
| Less than one year | 491,429 | 533,878 |
| Between one and five years | 947,298 | 1,158,994 |
| More than five years | 908,848 | 1,144,665 |
| | **2,347,575** | **2,837,537** |
| Unearned finance income | (588,105) | (735,821) |
| Impairment allowance | (289,446) | (61,694) |
| **Net investment in finance leases** | **1,470,024** | **2,040,022** |
| **The net investment in finance leases comprises** | | |
| Less than one year | 423,387 | 482,222 |
| Between one and five years | 634,289 | 900,996 |
| More than five years | 412,348 | 656,804 |
| | **1,470,024** | **2,040,022** |

## 21. Loans and advances to customers (continued)

### (c) Receivables from finance leases (continued)

#### *(i) Quality analysis of finance leases*

The following table provides information on the quality analysis of finance leases as at 31 December 2017:

| | *Gross loans AMD'000* | *Impairment allowance AMD'000* | *Net loans AMD'000* | *Impairment allowance to gross loans %* |
|---|---|---|---|---|
| **Finance leases** | | | | |
| - not overdue | 1,194,992 | 111,583 | 1,083,409 | 9.34% |
| - overdue less than 30 days | 86,601 | 1,507 | 85,094 | 1.74% |
| - 31-90 days overdue | 6,374 | 111 | 6,263 | 1.74% |
| - more than 90 days | 471,503 | 176,245 | 295,258 | 37.38% |
| **Total finance leases** | **1,759,470** | **289,446** | **1,470,024** | **16.45%** |

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** | | | | |
| - not overdue | 2,037,211 | 30,128 | 2,007,083 | 1.48% |
| - 31-90 days overdue | 24,881 | 409 | 24,472 | 1.64% |
| - more than 90 days | 39,624 | 31,157 | 8,467 | 78.63% |
| **Total finance leases** | **2,101,716** | **61,694** | **2,040,022** | **2.94%** |

Movements in impairment allowance for the year 2017 and 2016 are as follows:

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Balance at the beginning of the year** | **61,694** | **42,009** |
| Net charge | 232,973 | 30,875 |
| Write-offs | (5,221) | (11,190) |
| **Balance at the end of the year** | **289,446** | **61,694** |

#### *(ii) Concentration of receivables from finance leases*

As at 31 December 2017 the Bank has no customers whose balances exceed 10% of the Bank's equity (2016: nil).

#### *(iii) Finance lease maturities*

The maturity of the Bank's finance lease portfolio is presented in Note 32 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

#### *(iv) Geographical analysis of the finance lease portfolio*

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

#### *(v) Analysis of collateral*

Receivables from finance lease are secured by real estate, equipment and vehicles.

## 21. Loans and advances to customers (continued)

### (d) Receivables from factoring

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| Receivables from factoring | 6,752,241 | 4,191,244 |
| Impairment allowance | (13,504) | (8,382) |
| | **6,738,737** | **4,182,862** |

As at 31 December 2017 the Bank has no customers whose balances exceed 10% of the Bank's equity (2016: nil).

Movements in impairment allowance for the year 2017 and 2016 are as follows:

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| **Balance at the beginning of the year** | **8,382** | **10,918** |
| Net charge | 5,122 | 716 |
| Write-offs | – | (3,252) |
| **Balance at the end of the year** | **13,504** | **8,382** |

#### *(i) Quality analysis of factoring*

As at 31 December 2017 the Bank does not have any impaired or overdue amounts receivable from factoring.

#### *(ii) Factoring maturities*

The maturity of the factoring is presented in Note 32 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from factoring.

#### *(iii) Analysis of collateral*

Receivables from factoring are secured by real estate, equipment and vehicles.

## 22. Held-to-maturity investments

| | 2017 AMD'000 | 2016 AMD'000 |
|---|---|---|
| **Held by the Bank** | | |
| **Debt and other fixed-income instruments** | | |
| **- Government bonds** | | |
| Government bonds of the Republic of Armenia | 30,734,671 | 28,194,902 |
| Government Eurobonds of the Republic of Armenia | 2,520,028 | 6,967,102 |
| Government securities of other countries | 3,881,887 | – |
| **- Corporate bonds** | | |
| Corporate bonds of foreign companies | – | 803,989 |
| Corporate bonds of Armenian companies | 200,953 | 289,649 |
| | **37,337,539** | **36,255,642** |
| **Pledged under sale and repurchase agreements** | | |
| - Government Eurobonds of the Republic of Armenia | 5,968,305 | – |
| | **5,968,305** | **–** |

## 23. 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 2017** | **1,676,965** | **3,300,113** | **609,279** | **256,026** | **2,068,706** | **7,911,089** |
| Additions | 1,705,434 | 1,252,164 | 978,598 | 39 | 409,327 | **4,345,562** |
| Disposals/write-offs | – | (44,547) | (49,723) | (50,554) | – | **(144,824)** |
| **Balance at 31 December 2017** | **3,382,399** | **4,507,730** | **1,538,154** | **205,511** | **2,478,033** | **12,111,827** |
| **Depreciation and amortization** | | | | | | |
| **Balance at 1 January 2017** | **917,206** | **2,076,344** | **404,947** | **100,100** | **761,254** | **4,259,851** |
| Depreciation and amortization for the year | 217,725 | 319,512 | 40,589 | 24,861 | 265,156 | **867,843** |
| Disposals/write-offs | – | (44,025) | (48,241) | (50,517) | – | **(142,783)** |
| **Balance at 31 December 2017** | **1,134,931** | **2,351,831** | **397,295** | **74,444** | **1,026,410** | **4,984,911** |
| **Carrying amount** | | | | | | |
| **At 31 December 2017** | **2,247,468** | **2,155,899** | **1,140,859** | **131,067** | **1,451,623** | **7,126,916** |

| *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** |

## 24. Other assets

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Receivables from unsettled transactions | 1,100,692 | 396,889 |
| Restricted accounts with clearing houses | 351,161 | 345,624 |
| Brokerage accounts | 56,458 | 115,385 |
| **Total other financial assets** | **1,508,311** | **857,898** |
| Prepayments to suppliers | 2,162,958 | 479,686 |
| Repossessed assets | 1,479,534 | 1,118,947 |
| Standard bullions of precious metals | 532,675 | 351,233 |
| Other tax assets | 448,724 | – |
| Inventories | 126,681 | 55,051 |
| Other | 524,894 | 23,045 |
| Impairment allowance | (126,215) | (89,162) |
| **Total other non-financial assets** | **5,149,251** | **1,938,800** |
| **Total other assets** | **6,657,562** | **2,796,698** |

## 24. Other assets (continued)

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2017 and 2016 are as follows:

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Balance at the beginning of the year** | **89,162** | **65,522** |
| Net charge | 122,938 | 37,953 |
| Write-offs | (85,885) | (14,313) |
| **Balance at the end of the year** | **126,215** | **89,162** |

## 25. Deposits and balances from banks

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Short term loans and term deposits | 24,360,593 | 1,637,334 |
| Loans from CBA (through international programs) | 7,389,309 | 8,032,191 |
| Liabilities for letters of credit | 6,012,307 | 8,664,321 |
| Long term loans and term deposits from commercial banks | 1,924,673 | 53,267,356 |
| Vostro accounts | 317,119 | 233,680 |
| | **40,004,001** | **71,834,882** |

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 2017 the Bank has no banks (2016: two banks), whose balances exceed 10% of equity.

## 26. Amounts payable under repurchase agreements

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Amounts due to the banks | 6,121,693 | – |
| | **6,121,693** | **–** |

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

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 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.

### Transferred financial assets and assets held or pledged as collateral

*Transferred financial assets that are not derecognized in their entirety*

As at 31 December 2017 transferred financial assets that are not derecognized in their entirety by the Bank (there are no such assets as at 31 December 2016) are represented by Eurobonds of the Government of Republic of Armenia with fair value of AMD 6,323,772 thousands which were pledged for the payables under repurchase agreements with carrying value AMD 6,121,693 thousands. This transfer does not qualify for derecognition criteria.

## 27. Current accounts and deposits from customers

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Current accounts and demand deposits** | | |
| - Individuals | 47,010,214 | 32,809,388 |
| - Legal entities | 113,246,453 | 155,773,778 |
| **Term deposits** | | |
| - Individuals | 133,849,820 | 121,592,267 |
| - Legal entities | 81,064,292 | 104,433,253 |
| | **375,170,779** | **414,608,686** |

As at 31 December 2017, the Bank maintained customer current accounts and deposit balances of AMD 34,222,057 thousand (2016: AMD 145,465,084 thousand) that serve as collateral for loans and credit related commitments granted by the Bank.

As at 31 December 2017, the Bank has two customers (31 December 2016: eight customers) whose balances exceed 10% of equity. The gross value of these balances as 31 December 2017 is AMD 44,219,735 thousand (31 December 2016: AMD 127,255,616 thousand).

## 28. Debt securities issued

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Promissory Notes | 9,711,295 | 9,703,138 |
| Domestic bonds issued | 31,221,300 | 8,421,362 |
| | **40,932,595** | **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 2017 carrying value of the promissory Notes is AMD 9,711,295 thousand.

As at December 2017 the Bank has issued and placed debt securities denominated in AMD, USD and EUR with nominal amount of AMD 2,500,000 thousand, USD 55 million and EUR 3 million respectively. As at December 2017 carrying value of the bonds is AMD 2,581,582 thousand, AMD 26,886,359 thousand and AMD 1,753,359 thousand accordingly.

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

## 29. Other borrowed funds and subordinated borrowings

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Borrowings from international and other financial institutions | 98,128,094 | 102,303,900 |
| Borrowings from the Government of Armenia | – | 431,139 |
| | **98,128,094** | **102,735,039** |
| Subordinated borrowings | **40,919,768** | **40,811,255** |

### (a) Concentration of borrowings from international financial institutions

As at 31 December 2017, the Bank has loans from six financial institutions (31 December 2016: six), whose balances exceed 10% of equity. These balances as at 31 December 2017 are AMD 66,673,975 thousand (31 December 2016: AMD 91,891,017 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 were in AMD, bear interest rates of 7.3-7.8%, were granted for period of up to five years and are to be repaid at maturity.

## 29. Other borrowed funds and subordinated borrowings (continued)

### (c) Subordinated borrowing

As at 31 December 2017 subordinated borrowing represents:

- Borrowing received from the ultimate controlling party (AMD 5,928,587 thousand) maturing on 11 January 2021.
- Borrowing received from an international financial institution (AMD 25,079,819 thousand) maturing on 11 January 2022.
- Borrowing received from other financial institution (AMD 9,911,362 thousand) maturing on 23 September 2020.

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

### (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 2017.

## 30. Other liabilities

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Payables to staff | 2,173,129 | 1,725,164 |
| Other payables | 682,810 | 505,115 |
| Other financial liabilities | 974,958 | 543,468 |
| **Total other financial liabilities** | **3,830,897** | **2,773,747** |
| Deferred income | 10,470 | 10,136 |
| Other taxes payable | 264 | 89,255 |
| **Total other non-financial liabilities** | **10,734** | **99,391** |
| **Total other liabilities** | **3,841,631** | **2,873,138** |

## 31. Share capital and treasury shares

### (a) Issued capital and share premium

As at 31 December 2017 the authorized, issued and outstanding share capital comprises 100,273 ordinary shares (2016: 100,273). All shares have a nominal value of AMD 320 thousand and are fully paid.

The shareholders of the Bank as at 31 December 2017 are Ameria Group (CY) (65.8%), EBRD (20.7%) and ESPS Holding Limited (13.5%).

On 14 February 2018 Asian Development Bank purchased in full additionally issued 16,291 shares of the Bank for AMD 14,426,665 thousand.

The shareholders of the Bank as at the date of issue of these financial statements are Ameria Group (CY) (56.60%), EBRD (17.80%), ESPS Holding Limited (11.62%) and ADB (13.98%).

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.

# 31. Share capital and treasury shares (continued)

## (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 2017 amounted to AMD 2,176,201 thousand (2016: AMD 1,685,286 thousand). As of the date of the declaration and payment of dividends, dividends per share amounted to AMD 21,703 (2016: AMD 16,807).

# 32. 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.

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.

## 32. Risk management (continued)

### (b) Market risk (continued)

#### *(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.

| *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 2017** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | – | – | – | – | – | 107,616,368 | 107,616,368 |
| Available-for-sale financial assets | 71,032 | 11,148 | 227,212 | 5,553,955 | 3,918,271 | 106,460 | 9,888,078 |
| Loans and advances to banks | 8,739,698 | 3,003 | 194,200 | 419,556 | – | 1,486,433 | 10,842,890 |
| Amounts receivable under reverse repurchase agreements | 8,675,394 | – | – | – | – | – | 8,675,394 |
| Loans to legal entities and individuals | 45,210,195 | 26,637,844 | 42,751,699 | 269,762,881 | 73,670,449 | 9,277,663 | 467,310,731 |
| Receivables from letters of credit | 538,877 | 2,677,960 | 54,827 | 849,825 | – | – | 4,121,489 |
| Receivables from finance leases | 80,569 | 82,547 | 148,088 | 363,572 | 499,991 | 295,257 | 1,470,024 |
| Receivables from factoring | 5,112,354 | 1,626,383 | – | – | – | – | 6,738,737 |
| Held-to-maturity investments | 3,976,655 | 6,283,038 | – | 30,779,169 | 2,266,982 | – | 43,305,844 |
| | **72,404,774** | **37,321,923** | **43,376,026** | **307,728,958** | **80,355,693** | **118,782,181** | **659,969,555** |
| **Liabilities** | | | | | | | |
| Deposits and balances from banks | (11,315,455) | (10,279,331) | (9,743,119) | (7,566,112) | (1,099,984) | – | (40,004,001) |
| Amounts payable under repurchase agreements | (6,121,693) | – | – | – | – | – | (6,121,693) |
| Current accounts and deposits from customers | (49,540,771) | (33,847,623) | (72,872,974) | (58,579,433) | (73,308) | (160,256,670) | (375,170,779) |
| Debt securities issued | (10,044,318) | – | (9,768,608) | (21,119,669) | – | – | (40,932,595) |
| Subordinated borrowings | (34,991,181) | – | – | (5,928,587) | – | – | (40,919,768) |
| Other borrowed funds | (51,515,318) | (46,549,396) | (2,719) | (29,592) | (31,069) | – | (98,128,094) |
| | **(163,528,736)** | **(90,676,350)** | **(92,387,420)** | **(93,223,393)** | **(1,204,361)** | **(160,256,670)** | **(601,276,930)** |
| Effect of derivatives | 4,565,943 | – | (1,045,216) | (3,520,727) | – | – | – |
| **Net position** | **(86,558,019)** | **(53,354,427)** | **(50,056,610)** | **210,984,838** | **79,151,332** | **(41,474,489)** | **58,692,625** |

# 32. 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 legal entities and individuals | 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** |

*Average effective interest rates*

The table below displays average interest rates for interest earning assets and interest bearing liabilities as at 31 December 2017 and 31 December 2016.

| | ***2017 Average interest rate, %*** | | | ***2016 Average interest rate, %*** | | |
|---|---|---|---|---|---|---|
| | ***AMD*** | ***USD*** | ***Other currencies*** | ***AMD*** | ***USD*** | ***Other currencies*** |
| **Interest earning assets** | | | | | | |
| Available-for-sale financial assets | 11.7% | 3.8% | – | 13.27% | 1.86% | – |
| Loans and advances to banks | 12.1% | 2.8% | – | 6.15% | – | – |
| Amounts receivable under reverse repurchase agreements | 6.4% | 2.8% | – | 6.88% | 3.50% | – |
| Loans and advances to customers | 13.6% | 9.0% | 7.42% | 12.14% | 8.19% | 9.95% |
| Receivables from finance leases | 14.5% | 8.1% | 12.0% | 14.74% | 8.80% | 12.00% |
| Receivables from factoring | 14.4% | 9.3% | 14.0% | 15.55% | 10.80% | – |
| Held-to-maturity investments | 9.6% | 4.1% | – | 8.63% | 5.04% | – |
| **Interest bearing liabilities** | | | | | | |
| Deposits and balances from banks | 6.2% | 2.4% | 1.0% | 9.69% | 2.71% | 0.89% |
| Amounts payable under repurchase agreements | – | 1.5% | – | – | – | – |
| Current accounts and deposits from customers | | | | | | |
| - Term deposits | 11.3% | 4.6% | 3.1% | 12.11% | 5.80% | 5.89% |
| Debt securities issued | 10.0% | 5.8% | 3.3% | 10.75% | 5.56% | – |
| Subordinated borrowings | – | 8.5% | – | – | 8.11% | – |
| Other borrowed funds | 8.9% | 6.1% | – | 9.04% | 6.57% | – |

# 32. Risk management (continued)

## (b) Market risk (continued)

*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 2017*** | ***Sensitivity of net interest income 2017 AMD'000*** | ***Sensitivity of equity and other comprehensive income 2017 AMD'000*** |
|---|---|---|---|
| AMD | 1.60% | (27,133) | (352,276) |
| USD | 1.30% | (182,011) | (173,767) |

| ***Currency*** | ***Decrease in basis points 2017*** | ***Sensitivity of net interest income 2017 AMD'000*** | ***Sensitivity of equity and other comprehensive income 2017 AMD'000*** |
|---|---|---|---|
| AMD | 3.50% | 59,354 | 770,604 |
| USD | 0.50% | 92,938 | 66,833 |

| ***Currency*** | ***Increase in basis points 2016*** | ***Sensitivity of net interest income 2016 AMD'000*** | ***Sensitivity of equity and other comprehensive income 2016 AMD'000*** |
|---|---|---|---|
| AMD | 3.70% | (226,335) | (517,173) |
| USD | 1.00% | (135,074) | (34,336) |

| ***Currency*** | ***Decrease in basis points 2016*** | ***Sensitivity of net interest income 2016*** | ***Sensitivity of equity and other comprehensive income 2016*** |
|---|---|---|---|
| AMD | 3.70% | 226,335 | 517,173 |
| USD | 1.00% | 135,074 | 34,336 |

*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.

## 32. Risk management (continued)

### (b) Market risk (continued)

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

| | *USD AMD'000* | *EUR AMD'000* | *Other currencies AMD'000* | *Total AMD'000* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 25,075,556 | 5,331,961 | 4,107,302 | **34,514,819** |
| Financial instruments at fair value through profit or loss | 1,155,334 | 176,446 | – | **1,331,780** |
| Available-for-sale financial assets | 4,525,746 | – | – | **4,525,746** |
| Loans and advances to banks | 9,149,220 | 174,030 | 11,240 | **9,334,490** |
| Amounts receivable under reverse repurchase agreements | 852,065 | – | – | **852,065** |
| Loans to legal entiites and individuals | 350,982,331 | 36,265,542 | 3,921,191 | **391,169,064** |
| Receivables from letters of credit | 3,126,451 | 1,003,297 | – | **4,129,748** |
| Receivables from finance leases | 1,366,918 | 183,331 | – | **1,550,249** |
| Receivables from factoring | 5,403,801 | – | 707,154 | **6,110,955** |
| Held-to-maturity investments | 12,370,220 | – | – | **12,370,220** |
| Other assets | 1,530,736 | 198,305 | 588,828 | **2,317,869** |
| **Total assets** | **415,538,378** | **43,332,912** | **9,335,715** | **468,207,005** |
| **Liabilities** | | | | |
| Deposits and balances from banks | 24,179,459 | 5,976,771 | 53,642 | **30,209,872** |
| Amounts receivable under reverse repurchase agreements | 6,121,693 | – | – | **6,121,693** |
| Current accounts and deposits from customers | 226,317,577 | 26,725,025 | 6,629,080 | **259,671,682** |
| Debt securities issued | 36,597,654 | 1,753,359 | – | **38,351,013** |
| Subordinated borrowings | 40,919,768 | – | – | **40,919,768** |
| Other borrowed funds | 88,171,140 | – | – | **88,171,140** |
| Other liabilities | 573,228 | 145,807 | 76,951 | **795,986** |
| **Total liabilities** | **422,880,519** | **34,600,962** | **6,759,673** | **464,241,154** |
| **Net position** | **(7,342,141)** | **8,731,950** | **2,576,042** | **3,965,851** |
| Effect of derivatives | 11,962,384 | (8,701,500) | (2,043,075) | **1,217,809** |
| **Net position** | **4,620,243** | **30,450** | **532,967** | **5,183,660** |

## 32. Risk management (continued)

### (b) Market risk (continued)

The following table shows the foreign currency exposure structure of 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 legal entities and individuals | 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** |

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2017 and 31 December 2016 would have increased/(decreased) equity and profit or loss by the amounts shown below (due to the fair value of currency sensitive 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.

| | ***2017*** | | ***2017*** | |
|---|---|---|---|---|
| | *Appreciation* | *Profit or loss AMD'000* | *Depreciation* | *Profit or loss AMD'000* |
| AMD against USD | 3.50% | (161,709) | 3.50% | 161,709 |
| AMD against EUR | 13.70% | (4,172) | 6.30% | 1,918 |

| | ***2016*** | | ***2016*** | |
|---|---|---|---|---|
| | *Appreciation* | *Profit or loss AMD'000* | *Depreciation* | *Profit or loss AMD'000* |
| AMD against USD | 6.00% | (594,620) | 6.00% | 594,620 |
| AMD against EUR | 11.00% | (10) | 11.00% | 10 |

A weakening of the AMD against the above currencies at 31 December 2017 and 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## 32. Risk management (continued)

### (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.

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 and advances to customers and concentration of credit risk in respect of loans and advances to customers refer to Note 21.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 34.

***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.

# 32. Risk management (continued)

## (c) Credit risk (continued)

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

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

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

| *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 | 8,675,394 | – | 8,675,394 | (8,675,394) | – |
| **Total financial assets** | **8,675,394** | **–** | **8,675,394** | **(8,675,394)** | **–** |
| Amounts payable under repurchase agreements | (6,121,693) | – | (6,121,693) | 5,968,305 | **(153,388)** |
| **Total financial liabilities** | **(6,121,693)** | **–** | **(6,121,693)** | **5,968,305** | **(153,388)** |

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 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.

## 32. Risk management (continued)

### (d) Liquidity risk (continued)

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.

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, except current accounts and on demand deposits from customers which are stated at expected maturities. 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 2017 is as follows:

| *AMD'000* | *Demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 6 months* | *From 6 to 12 months* | *From 1 to 5 years* | *More than 5 years* | *Total gross amount (inflow) outflow* | *Carrying amount* |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | | |
| Deposits and balances from banks | 10,905,360 | 677,271 | 10,493,349 | 10,083,331 | 9,401,436 | 1,515,481 | **43,076,228** | 40,004,001 |
| Amounts payable under repurchase agreements | 6,121,693 | – | – | – | – | – | **6,121,693** | 6,121,693 |
| Current accounts and deposits from customers | 76,528,416 | 57,389,681 | 69,099,404 | 76,715,037 | 109,446,144 | 91,239 | **389,269,921** | 375,170,779 |
| Debt securities issued | 396,789 | 557,928 | 599,124 | 10,660,872 | 32,697,239 | – | **44,911,952** | 40,932,595 |
| Subordinated borrowings | 1,341,759 | 955,617 | 839,812 | 1,679,624 | 48,369,135 | – | **53,185,947** | 40,919,768 |
| Other borrowed funds | 1,696,247 | 9,992,480 | 3,953,724 | 24,794,550 | 70,892,191 | 6,853,935 | **118,183,127** | 98,128,094 |
| Other financial liabilities | 967,739 | 111,902 | 2,751,256 | – | – | – | **3,830,897** | 3,830,897 |
| Net settled derivative liabilities | 74,877 | – | – | – | – | – | **74,877** | 74,877 |
| **Gross settled derivative financial instruments** | | | | | | | | |
| - Contractual amounts payable | – | (54,473,593) | – | – | – | – | **(54,473,593)** | (611,429) |
| - Contractual amounts receivable | – | 54,480,970 | – | – | – | – | **54,480,970** | 484,540 |
| **Total financial liabilities** | **98,032,880** | **69,692,256** | **87,736,669** | **123,933,414** | **270,806,145** | **8,460,655** | **658,662,019** | **605,055,815** |
| **Credit related commitments** | **42,899,097** | **–** | **–** | **–** | **–** | **–** | **42,899,097** | **42,899,097** |

# 32. Risk management (continued)

## (d) Liquidity risk (continued)

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 borrowings | 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** |

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.

## 32. Risk management (continued)

### (d) Liquidity risk (continued)

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

| *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 | 107,616,368 | – | – | – | – | – | – | **107,616,368** |
| Financial instruments at fair value through profit or loss | 116,092 | 836,773 | 5,190 | 2,598,278 | 411,731 | – | – | **3,968,064** |
| Available–for-sale financial assets | 26,735 | 53,087 | 229,570 | 5,553,955 | 3,918,271 | 106,460 | – | **9,888,078** |
| Loans and advances to banks | 8,727,521 | 12,177 | 197,203 | 419,555 | – | 1,486,434 | – | **10,842,890** |
| Amounts receivable under reverse repurchase agreements | 8,675,394 | – | – | – | – | – | – | **8,675,394** |
| Loans to legal entities and individuals | 16,472,285 | 24,890,862 | 61,554,619 | 253,415,202 | 101,700,101 | – | 9,277,662 | **467,310,731** |
| Receivables from letters of credit | 63,936 | 474,941 | 2,732,786 | 849,826 | – | – | – | **4,121,489** |
| Receivables from finance leases | 33,729 | 46,840 | 230,635 | 363,572 | 499,991 | – | 295,257 | **1,470,024** |
| Receivables from factoring | 1,605,775 | 3,506,579 | 1,626,383 | – | – | – | – | **6,738,737** |
| Held-to-maturity investments | 250,184 | 3,726,470 | 6,283,038 | 30,779,169 | 2,266,983 | – | – | **43,305,844** |
| Property, equipment and intangible assets | – | – | – | – | – | 7,126,916 | – | **7,126,916** |
| Other assets | 1,649,866 | 677,400 | 3,442,533 | – | – | 887,763 | – | **6,657,562** |
| **Total assets** | **145,237,885** | **34,225,129** | **76,301,957** | **293,979,557** | **108,797,077** | **9,607,573** | **9,572,919** | **677,722,097** |
| **Liabilities** | | | | | | | | |
| Financial instruments at fair value through profit or loss | 74,877 | 611,429 | – | – | – | – | – | 686,306 |
| Amounts payable under repurchase agreements | 6,121,693 | – | – | – | – | – | – | 6,121,693 |
| Deposits and balances from banks | 10,813,773 | 501,682 | 20,022,450 | 7,566,112 | 1,099,984 | – | – | 40,004,001 |
| Current accounts and deposits from customers | 75,395,507 | 55,390,566 | 139,347,562 | 104,963,837 | 73,307 | – | – | 375,170,779 |
| Debt securities issued | 197,081 | 158,512 | 9,768,530 | 30,808,472 | – | – | – | 40,932,595 |
| Subordinated borrowings | 1,061,822 | 395,743 | – | 39,462,203 | – | – | – | 40,919,768 |
| Other borrowed funds | 1,176,595 | 8,990,221 | 24,365,684 | 57,684,363 | 5,911,231 | – | – | 98,128,094 |
| Current tax liability | – | – | 990,256 | – | – | – | – | 990,256 |
| Deferred tax liability | – | – | – | 1,025,103 | – | – | – | 1,025,103 |
| Other liabilities | 967,739 | 111,902 | 2,761,990 | – | – | – | – | 3,841,631 |
| **Total liabilities** | **95,809,087** | **66,160,055** | **197,256,472** | **241,510,090** | **7,084,522** | **–** | **–** | **607,820,226** |
| **Net position** | **49,428,798** | **(31,934,926)** | **(120,954,515)** | **52,469,467** | **101,712,555** | **9,607,573** | **9,572,919** | **69,901,871** |
| **Cumulative net position** | **49,428,798** | **17,493,872** | **(103,460,643)** | **(50,991,176)** | **50,721,379** | | | |

## 32. Risk management (continued)

### (d) Liquidity risk (continued)

The maturity analysis in the table above does not reflect the historical stability of term deposits. Based on the analysis of past history, 45% of total time deposits maturing in 1 year or less, actually roll over at the maturity. Thereby, the real maturity of those deposits is more than 1 year. These balances are included in amounts due in the period less than 1 year in the table. Subsequent to the reporting date the Bank has attracted long-term borrowings from international financial organizations in the amount of USD 11,500 thousand (equivalent to AMD 5,567,150 thousand (converted by yearend USD/AMD rate)) and has received approval for credit facilities in the amount of USD 90,000 thousand (equivalent to AMD 43,569,000 thousand (converted by yearend USD/AMD rate)), which have not been used by the Bank yet at the date of these financial statements. In addition on 14 February 2018 the Bank attracted share caputal in the amount of AMD 14,426,665 thousand from Asian Development Bank (see note 40).

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.

# 32. Risk management (continued)

## (d) Liquidity risk (continued)

The table below shows an analysis, by expected 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 legal entities and individuals | 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** | | | |

## 32. 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:

| | ***2017*** ***AMD'000*** | ***2016*** ***AMD'000*** |
|---|---|---|
| At 31 December | 101% | 128% |
| Average for December | 93% | 133% |

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%.

## 33. 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 2017 and 31 December 2016, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2017 and 31 December 2016.

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

| | ***2017*** ***AMD'000*** | ***2016*** ***AMD'000*** |
|---|---|---|
| Tier 1 capital | 68,632,980 | 63,227,715 |
| Tier 2 capital | 26,738,055 | 31,613,858 |
| **Total capital** | **95,371,035** | **94,841,573** |
| **Total risk weighted assets** | **534,420,563** | **463,628,657** |
| **Total capital expressed as a percentage of risk-weighted assets (total capital ratio)** | **17.85%** | **20.46%** |

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.

## 34. 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.

## 34. Commitments (continued)

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 legal entities and individuals.

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.

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Contracted amount** | | |
| Loan and credit line commitments | 19,807,875 | 21,416,078 |
| Credit card commitments | 9,245,979 | 7,976,314 |
| Guarantees and letters of credit | 8,183,658 | 9,740,164 |
| Undrawn overdraft facilities | 5,661,585 | 4,775,663 |
| | **42,899,097** | **43,908,219** |

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.

## 35. Operating leases

### (a) Bank as lessee

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

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Less than 1 year | 1,419,525 | 1,952,090 |
| Between 1 and 5 years | 1,285,131 | 9,490,860 |
| More than 5 years | 361,451 | 6,676,219 |
| | **3,066,107** | **18,119,169** |

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 2017 operating leases include non-cancellable rentals to a related party amounting to AMD 757,215 thousand (2016: AMD 15,315,888 thousand). In 2017 the Bank has revised lease terms with a related party and previously long-term non-cancellable lease period was decreased to 6 months.

## 36. 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 2017 the Bank has up to AMD 7,021,000 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.

### (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.

## 36. Contingencies (continued)

### (c) Taxation contingencies (continued)

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.

## 37. Related party transactions

### (a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 65.8% of the share capital as at 31 December 2017.

The ultimate controler and final beneficiary owner of the Bank is Mr. Ruben Vardanyan.

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:

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| Short-term employee benefits | 1,972,902 | 2,271,649 |

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:

| | *2017 AMD'000* | *Average interest rate, %* | *2016 AMD'000* | *Average interest rate, %* |
|---|---|---|---|---|
| **Statement of financial position** | | | | |
| Loans issued | 1,253,917 | 8.02% | 956,059 | 6.96% |
| Other assets | 1,893 | 0.00% | 1,135 | 0.00% |
| Deposits received | 674,074 | 5.70% | 422,061 | 6.58% |
| Subordinated borrowings | 5,928,587 | 6.00% | – | – |
| Other liabilities | 1,077,633 | 0.00% | 850,945 | 0.00% |
| Guarantees | 16,944 | 0.00% | 33,876 | 0.00% |

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:

| | *2017 AMD'000* | *2016 AMD'000* |
|---|---|---|
| **Profit or loss** | | |
| Interest income | 66,568 | 62,275 |
| Interest expense | (141,954) | (43,675) |

# 37. Related party transactions (continued)

## (c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with other related parties are as follows:

| | *Parent company* | | *Shareholder with significant influence* | | *Subsidiaries of the immediate parent company* | | *Other 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 | – | – | – | – | – | – | 645,001 | – | **645,001** |
| Loans and advances to customers | – | – | – | – | – | – | 34,916,760 | 13.27% | **34,916,760** |
| Other asset | – | – | – | – | 795,016 | – | 3,596 | – | **798,612** |
| **Liabilities** | | | | | | | | | |
| Financial instruments at fair value through profit or loss | – | – | – | – | – | – | 611,430 | – | **611,430** |
| Current accounts and deposits from customers | | | | | | | | | |
| - Current accounts and demand deposits | 666,258 | 0.00% | 1,172,117 | 0.00% | 200,264 | 0.00% | 1,980,570 | 0.00% | **4,019,209** |
| - Term deposits | – | – | – | – | 513,431 | 4.66% | 32,590,571 | 12.87% | **33,104,002** |
| Other borrowings | – | – | 9,890,487 | 8.90% | – | – | – | – | **9,890,487** |
| Other liabilities | – | – | 10,316 | 0.00% | – | – | – | – | **10,316** |
| **Items not recognised in the statement of financial position** | | | | | | | | | |
| Guarantees given | – | – | – | – | – | – | 20,304 | 0.00% | **20,304** |
| **Profit (loss)** | | | | | | | | | |
| Interest income | – | – | 1,371 | – | – | – | 4,360,124 | – | **4,361,495** |
| Interest expense | – | – | (1,135,191) | – | (21,325) | – | (3,864,603) | – | **(5,021,119)** |
| Other expense | – | – | – | – | (17,055) | – | (98,978) | – | **(116,033)** |

# 37. 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 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 immediate parent company* | | *Other 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 and advances 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)** |

# 38. 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.

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 and advances to customers, held-to-maturity investments and debt securities issued approximate their carrying values. As at 31 December 2017 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 106,458 thousand (2016: AMD 106,458 thousand) cannot be determined.

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

## (a) Accounting classifications and fair values (continued)

The table below sets out the carrying amounts and fair values of loans and advances to customers, held-to-maturity investments and domestic bonds issued as at 31 December 2017:

| | *Carrying amount AMD'000* | *Fair value AMD'000* |
|---|---|---|
| Loans and advances to customers | 479,640,981 | 474,361,415 |
| Held-to-maturity investments | 43,305,844 | 44,680,299 |
| Domestic bonds issued | 31,221,300 | 31,493,983 |
| **Total** | **554,168,125** | **550,535,697** |

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

| | *Carrying amount AMD'000* | *Fair value AMD'000* |
|---|---|---|
| Loans and advances to customers | 513,218,709 | 506,319,981 |
| Held-to-maturity investments | 36,255,642 | 36,889,889 |
| Domestic bonds issued | 8,421,362 | 8,623,327 |
| **Total** | **557,895,713** | **551,833,197** |

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 and advances 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.

## 38. 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 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

| *AMD'000* | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| ***Assets and liabilities measured at fair value*** | | | | |
| **Financial instruments at fair value through profit or loss** | | | | |
| - Debt and other fixed-income instruments | – | 3,015,199 | – | **3,015,199** |
| - Derivative assets | – | 952,865 | – | **952,865** |
| - Derivative liabilities | – | (686,306) | – | **(686,306)** |
| **Available-for-sale financial assets** | | | | |
| - Debt instruments | 2,942,639 | 6,838,981 | – | **9,781,620** |
| | **2,942,639** | **10,120,739** | **–** | **13,063,378** |
| ***Assets for which fair values are disclosed*** | | | | |
| Loans to and advances customers | – | – | 474,361,415 | **474,361,415** |
| Held-to-maturity investments | 3,881,042 | 40,799,257 | – | **44,680,299** |
| Domestic bonds issued | – | 31,493,983 | – | **31,493,983** |
| | **3,881,042** | **72,293,240** | **474,361,415** | **550,535,697** |

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 and advances to customers | – | – | 506,319,981 | **506,319,981** |
| Held-to-maturity investments | 804,054 | 36,085,835 | – | **36,889,889** |
| Domestic bonds issued | – | 8,623,327 | – | **8,623,327** |
| | **804,054** | **44,709,162** | **506,319,981** | **551,833,197** |

*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.

## 39. Changes in liabilities arising from financing activities

| *AMD'000* | *Debt securities issued* | *Other borrowed funds* | *Subordinated loans* | *Total liabilities from financing activities* |
|---|---|---|---|---|
| **Carrying amount at 31 December 2015** | **–** | **78,383,861** | **39,721,324** | **118,105,185** |
| Proceeds from issue | 17,815,044 | 77,618,450 | – | **95,433,494** |
| Redemption | – | (53,479,054) | – | **(53,479,054)** |
| Foreign currency translation | 175,875 | 193,843 | 4,518 | **374,236** |
| Other | 133,581 | 17,939 | 1,085,413 | **1,236,933** |
| **Carrying amount at 31 December 2016** | **18,124,500** | **102,735,039** | **40,811,255** | **161,670,794** |
| Proceeds from issue | 22,504,610 | 67,496,831 | – | **90,001,441** |
| Redemption | – | (72,097,598) | – | **(72,097,598)** |
| Foreign currency translation | 82,042 | 29,467 | (4,111) | **107,398** |
| Other | 221,443 | (35,645) | 112,624 | **298,422** |
| **Carrying amount at 31 December 2017** | **40,932,595** | **98,128,094** | **40,919,768** | **179,980,457** |

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

## 40. Events after reporting period

On 14 February 2018 Asian Development Bank purchased in full additionally issued 16,291 shares of the Bank for AMD 14,426,665 thousand. As the result of the transaction the shareholding structure of the Bank changed as follows: Ameria Group (CY) (56.60%), EBRD (17.80%), ESPS Holding Limited (11.62%) and ADB (13.98%).