Anelik Bank CJSC

Financial Statements

for the year ended 31 December 2016

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Independent Auditors' Report

To the Shareholders and Council of Anelik Bank CJSC

Opinion

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

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

Basis for Opinion

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

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.

<table>
<tr><th colspan="2">Impairment of loans to customers</th></tr>
<tr><td colspan="2">Please refer to the Note 14 in the financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Loans to customers comprise more than 76% of assets and are recognised net of impairment allowance that is estimated on a regular basis and is sensitive to assumptions used.

The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.

The collective impairment loss allowance relates to unsecured retail loans and losses incurred but not yet identified on other loans.

Due to significant amount of loans to customers as well as uncertainty inherent to the estimation of impairment allowance, this issue is a key audit matter.</td><td>Our procedures in this area included:

- assessing and testing the design and operating effectiveness of controls over the system's calculation of overdue days and identification of impaired loans;

- for a sample of individually significant not impaired loans assessment of the reasonableness of the estimated impairment allowance;

- for a sample of individually significant loans classified as impaired assessment of the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral by comparing to available market data;

- for retail loans we estimated the following key assumptions used in the calculation of impairment allowance on a collective basis:

    - testing the accuracy of key inputs into the collective impairment loss allowance assessment models;

    - assessment of the appropriateness of the impairment calculation methodology.

- assessing whether the financial statement disclosures, appropriately reflect the Bank's exposure to credit risk.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' 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.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2015 were audited by other auditors whose report dated 11 March 2016 expressed an unmodified opinion on those statements.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

We also provide those charged with governance 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.

From the matters communicated with those charged with governance, 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 auditors' 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 engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc

KPMG Armenia cjsc
28 April 2017

	Notes	2016 AMD'000	2015 AMD'000
Interest income	4	13,209,550	10,385,085
Interest expense	4	(8,840,711)	(6,165,524)
Net interest income		**4,368,839**	**4,219,561**
Fee and commission income		593,583	743,874
Fee and commission expense		(227,589)	(249,934)
Net fee and commission income		**365,994**	**493,940**
Net gain on financial instruments at fair value through profit or loss		36,454	-
Net foreign exchange income		256,737	345,193
Net gain on available-for-sale financial assets		226,031	-
Other operating income, net	5	1,117,008	791,052
Operating income		**6,371,063**	**5,849,746**
Impairment losses, net	6	(1,222,281)	(1,639,125)
Personnel expenses		(2,046,670)	(2,234,240)
Other general administrative expenses	7	(1,631,711)	(1,588,042)
Profit before income tax		**1,470,401**	**388,339**
Income tax expense	8	(353,726)	(173,132)
Profit for the year		**1,116,675**	**215,207**
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		2,009,100	16,096
- Net change in fair value transferred to profit or loss		(180,825)	-
Other comprehensive income for the year, net of income tax		**1,828,275**	**16,096**
Total comprehensive income for the year		**2,944,950**	**231,303**

The financial statements as set out on pages 7 to 66 were approved by management on 28 April 2017 and were signed on its behalf by:

Nerses Karamanukyan
Chairman of the Management Board

Naira Grigoryan
Chief Accountant

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

	Notes	2016 AMD'000	2015 AMD'000
ASSETS			
Cash and cash equivalents	9	30,061,489	14,309,284
Financial instruments at fair value through profit or loss			
- Held by the Bank	10	77,106	-
Available-for-sale financial assets			
- Held by the Bank	11	18,313,773	155,917
Loans and advances to banks and other financial institutions		547,876	606,340
Amounts receivable under reverse repurchase agreements	12	7,722,510	-
Loans to customers	14	217,036,997	60,700,897
Held-to-maturity investments			
- Held by the Bank	13	353,392	3,691,293
- Pledged under sale and repurchase agreements	13	-	384,953
Current tax asset		30,444	112,021
Property, equipment and intangible assets	15	4,824,406	4,996,892
Deferred tax assets	8	-	202,773
Other assets	16	3,485,291	5,607,681
Total assets		**282,453,284**	**90,768,051**
LIABILITIES			
Financial instruments at fair value through profit or loss	10	61,386	-
Deposits and balances from banks and other financial institutions	17	66,713,188	16,647,560
Amounts payable under repurchase agreements		-	300,150
Current accounts and deposits from customers	19	167,523,458	53,060,765
Debt securities issued	18	2,428,223	-
Other borrowed funds	20	3,262,564	4,033,110
Deferred tax liabilities	8	604,942	-
Other liabilities	21	737,696	355,538
Total liabilities		**241,331,457**	**74,397,123**
EQUITY			
Share capital	22	33,971,850	13,696,300
Share premium		5,014,099	3,483,700
Revaluation surplus for buildings		156,499	156,499
Revaluation reserve for available-for-sale financial assets		1,925,441	97,166
Retained earnings/(accumulated losses)		53,938	(1,062,737)
Total equity		**41,121,827**	**16,370,928**
Total liabilities and equity		**282,453,284**	**90,768,051**

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

	Notes	2016 AMD'000	2015 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		12,485,353	9,602,262
Interest payments		(7,139,046)	(5,917,675)
Fee and commission receipts		593,583	743,874
Fee and commission payments		(227,589)	(249,934)
Net receipts from financial instruments at fair value through profit or loss		20,734	-
Net receipts from foreign exchange		430,045	263,000
Other income receipts		802,210	798,095
Other general administrative expenses payments		(3,176,574)	(3,452,286)
(Increase) decrease in operating assets			
Amounts receivable under reverse repurchase agreements		(7,718,919)	-
Loans and advances to banks and other financial institutions		58,405	1,493,362
Loans to customers		(157,539,942)	(3,455,233)
Other assets		5,185,180	(557,073)
Increase (decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		49,178,502	1,892,962
Amounts payable under repurchase agreements		(300,000)	(1,630,000)
Current accounts and deposits from customers		111,453,079	3,908,342
Other liabilities		(5,596)	(26,289)
Net cash provided from operating activities before income tax paid		**4,099,425**	**3,413,407**
Income tax paid		(16,503)	(9,939)
Cash flows from operations		**4,082,922**	**3,403,468**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale financial assets		(1,443,088)	-
Sale and repayment of available-for-sale financial assets		6,866,970	-
Purchases of held-to-maturity investments		(19,943,793)	(1,752,992)
Repayment of held-to-maturity investments		2,596,284	86,243
Purchases of property, equipment and intangible assets		(172,140)	(230,395)
Cash flows used in investing activities		**(12,095,767)**	**(1,897,144)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities		2,418,311	-
Receipts of other borrowed funds		1,792,112	386,143
Repayment of other borrowed funds		(2,501,791)	(1,586,048)
Proceeds from issuance of share capital		21,805,949	-
Cash flows from/(used in) financing activities		**23,514,581**	**(1,199,905)**
Net increase in cash and cash equivalents		**15,501,736**	**306,419**
Effect of changes in exchange rates on cash and cash equivalents		250,469	(50,830)
Cash and cash equivalents as at the beginning of the year		14,309,284	14,053,695
Cash and cash equivalents as at the end of the year	9	**30,061,489**	**14,309,284**

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

AMD'000	**Share capital**	**Share premium**	**Revaluation surplus for buildings**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings/(accumulated losses)**	**Total equity**
Balance as at 1 January 2015	11,816,300	3,483,700	156,499	81,070	(1,277,944)	14,259,625
Total comprehensive income						
Profit for the year	-	-	-	-	215,207	215,207
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	16,096	-	16,096
Total other comprehensive income	-	-	-	16,096	-	16,096
Total comprehensive income for the year	**-**	**-**	**-**	**16,096**	**215,207**	**231,303**
Transactions with owners, recorded directly in equity						
Shares issued	1,880,000	-	-	-	-	1,880,000
Total transactions with owners	**1,880,000**	**-**	**-**	**-**	**-**	**1,880,000**
Balance as at 31 December 2015	**13,696,300**	**3,483,700**	**156,499**	**97,166**	**(1,062,737)**	**16,370,928**
Balance as at 1 January 2016	13,696,300	3,483,700	156,499	97,166	(1,062,737)	16,370,928
Total comprehensive income						
Profit for the year	-	-	-	-	1,116,675	1,116,675
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	2,009,100	-	2,009,100
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(180,825)	-	(180,825)
Total other comprehensive income	-	-	-	1,828,275	-	1,828,275
Total comprehensive income for the year	**-**	**-**	**-**	**1,828,275**	**1,116,675**	**2,944,950**
Transactions with owners, recorded directly in equity						
Shares issued	20,275,550	1,530,399	-	-	-	21,805,949
Total transactions with owners	**20,275,550**	**1,530,399**	**-**	**-**	**-**	**21,805,949**
Balance as at 31 December 2016	**33,971,850**	**5,014,099**	**156,499**	**1,925,441**	**53,938**	**41,121,827**

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

1 Background

(a) Organisation and operations

Anelik Bank CJSC (the Bank) was established in the Republic of Armenia as a limited liability company in 1990, and reorganised into a closed joint stock company in 2007. Its principal activities are deposit taking, customer account maintenance, credit operations, issuing guarantees, cash and settlement operations, and securities and foreign exchange transactions. The Bank's activities are regulated by the Central Bank of Armenia (the CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank's registered office is 13 Vardanants Street, Yerevan 0010, Republic of Armenia.

The Bank has 13 branches. The majority of its assets and liabilities are located in the Republic of Armenia.

As at 31 December 2016 the Bank's shareholders are FISTOCO LTD (59.68%) and Creditbank SAL (40.32%) (31 December 2015: Creditbank SAL (100%)). Related party transactions are described in detail in note 28.

The Bank is ultimately controlled by a single individual, Mr. Vartan Dilanyan (2015: Tarek J. Khalife).

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, and buildings are stated at revalued amounts.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with 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 recognised in the period in which the estimates are revised and in any future periods affected.

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

- loan impairment estimates - note 14;
- estimates of fair values of financial assets and liabilities – note 29;
- buildings revaluation estimates - note 15.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised 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 recognised 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 recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The minimum reserve deposit with the CBA is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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 a derivative that is a financial guarantee contract or a 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 recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised 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 amortised cost.

(iv) Amortised cost

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised 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 amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise 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 recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

(vi) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised 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 derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognises 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 recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised 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 derecognised. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

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

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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 recognised 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 recognised 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, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

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

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

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

(x) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise 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, except for buildings, which are stated at revalued amounts as described below.

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) Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(iii) 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. Land is not depreciated. The estimated useful lives are as follows:

- buildings	50 years
- leasehold improvements	20 years
- computers and communication equipment	4-10 years
- motor vehicles	10 years
- fixtures and fittings	10 years

(e) Intangible assets

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

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

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

(f) 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 related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

(i) Financial assets carried at amortised cost

Financial assets carried at amortised 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 recognised 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 related 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 recognised 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 recognised.

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

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised 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 recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised 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 goodwill is estimated at each reporting date. 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 recognised 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 recognised 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 amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(g) Provisions

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

(h) Credit related commitments

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

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised, less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised 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 recognised, except in the following cases:

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

(i) Share capital

(i) Ordinary shares

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

(ii) Share premium

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

(iii) Dividends

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

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

(j) Taxation

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax assets and liabilities are recognised 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 recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

Deferred tax assets are recognised 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 utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

Interest income and expense are recognised 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 amortised 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 recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(l) Comparative information

Comparative information is reclassified to conform to changes in presentation in the current year.

During 2016 the Bank changed its accounting policy for the presentation of the Statement of Cash Flows from indirect method to direct method. Management is of the opinion that direct method provides more relevant information.

In addition, cash payments for subordinated borrowing and cash receipts from issuance of share capital in 2015 of AMD 1,880,000 thousand were presented separately in 2015 financial statements in the statement of cash flows, whereas these were not presented in these financial statements, as the increase in share capital during 2015 was implemented by the way of conversion of subordinated borrowing to equity.

(m) New standards and interpretations not yet adopted

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

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

  Classification and measurement

  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

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

  Impairment

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

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

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

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

Transition

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

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

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

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

- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*);
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*).

4 Net interest income

	2016 AMD'000	2015 AMD'000
Interest income		
Loans to customers	11,689,989	10,016,082
Held-to-maturity investments	1,258,027	331,890
Available-for-sale financial assets	113,646	-
Other	147,888	37,113
	13,209,550	**10,385,085**
Interest expense		
Current accounts and deposits from customers	6,338,042	4,197,483
Deposits and balances from banks and other financial institutions	1,882,261	1,295,314
Other borrowed funds	292,249	380,335
Amounts payable under repurchase agreements	114,551	150,103
Other	213,608	142,289
	8,840,711	**6,165,524**
	4,368,839	**4,219,561**

Included within various line items under interest income for the year ended 31 December 2016 is a total of AMD 1,022,118 thousand (2015: AMD 882,811 thousand) accrued on impaired financial assets.

5 Other operating income, net

	2016 AMD'000	2015 AMD'000
Income from fines and penalties	895,937	700,382
Gain/(loss) from sale of repossessed assets	314,798	(7,043)
Insurance compensation	-	162,547
Other	(93,727)	(64,834)
	1,117,008	**791,052**

6 Impairment losses, net

	2016 AMD'000	2015 AMD'000
Loans to customers	1,539,011	1,478,417
Repossessed assets	(211,984)	135,691
Other assets	(104,746)	25,017
	1,222,281	**1,639,125**

7 Other general administrative expenses

	2016 AMD'000	2015 AMD'000
Taxes other than on income	387,393	322,889
Depreciation and amortisation	289,611	319,744
Operating lease expense	187,056	219,835
Security	156,544	154,429
Repairs and maintenance	123,077	112,491
Professional services	87,080	58,809
Insurance	82,431	64,742
Utility	68,027	66,672
Communications and information services	56,028	57,095
Advertising and marketing	55,245	91,738
Other	139,219	119,598
	1,631,711	**1,588,042**

8 Income tax expense

	2016 AMD'000	2015 AMD'000
Current year tax expense	-	33,206
Current tax expense underprovided in prior years	3,080	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	350,646	139,926
Total income tax expense	**353,726**	**173,132**

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

Reconciliation of effective tax rate for the year ended 31 December:

	2016 AMD'000	%	2015 AMD'000	%
Profit before income tax	1,470,401		388,339	
Income tax at the applicable tax rate	294,080	20.0	77,668	20.0
Non-deductible expenses	56,566	3.8	95,464	24.6
Under-provided in prior years	3,080	0.2	-	-
	353,726	**24.0**	**173,132**	**44.6**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities and assets as at 31 December 2016 and 2015, respectively.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forward expires in 2021.

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

AMD'000	Balance 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2016
Available-for-sale financial assets	(21,734)	(2,892)	(457,069)	(481,695)
Loans and advances to banks and other financial institutions	(1,435)	197	-	(1,238)
Loans to customers	189,950	(715,262)	-	(525,312)
Held-to-maturity investments	(400)	(1,005)	-	(1,405)
Property, equipment and intangible assets	(35,103)	16,477	-	(18,626)
Other assets	38,302	(59,623)	-	(21,321)
Other liabilities	33,193	7,650	-	40,843
Tax loss carry-forwards	-	403,812	-	403,812
	202,773	**(350,646)**	**(457,069)**	**(604,942)**

AMD'000	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2015
Available-for-sale financial assets	(17,687)	-	(4,047)	(21,734)
Loans and advances to banks and other financial institutions	(5,082)	3,647	-	(1,435)
Loans to customers	126,571	63,379	-	189,950
Held-to-maturity investments	(400)	-	-	(400)
Property, equipment and intangible assets	(34,498)	(605)	-	(35,103)
Other assets	28,258	10,044	-	38,302
Other liabilities	21,820	11,373	-	33,193
Tax loss carry-forwards	227,764	(227,764)	-	-
	346,746	**(139,926)**	**(4,047)**	**202,773**

(b) Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2016 and 2015 comprise the following:

	2016			2015		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	2,511,375	(502,275)	2,009,100	20,143	(4,047)	16,096
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(226,031)	45,206	(180,825)	-	-	-
Other comprehensive income	**2,285,344**	**(457,069)**	**1,828,275**	**20,143**	**(4,047)**	**16,096**

9 Cash and cash equivalents

	2016 AMD'000	2015 AMD'000
Cash on hand	2,211,899	2,413,152
Nostro accounts with the CBA	24,366,895	11,360,010
Nostro accounts with other banks		
- rated A- to A+	-	277,602
- rated BBB+	33,659	122,253
- rated from BB- to BB+	59,492	27,487
- rated from B- to B+	171,560	22,105
- not rated	217,205	86,675
Total nostro accounts with other banks	481,916	536,122
Cash equivalents		
Overnight deposit with the CBA	3,000,779	-
Total cash and cash equivalents	**30,061,489**	**14,309,284**

No cash and cash equivalents are impaired or past due.

The Bank uses credit ratings per Fitch in disclosing credit quality.

As at 31 December 2016 and 2015 the balances with the CBA exceed 10% of the equity.

10 Financial instruments at fair value through profit or loss

	2016 AMD'000	2015 AMD'000
ASSETS		
Derivative financial instruments		
Foreign currency contracts	77,106	-
	77,106	**-**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	61,386	-
	61,386	**-**

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

No financial assets at fair value through profit or loss are past due or impaired.

(a) Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of currency swap contracts outstanding as at 31 December 2016 and 2015 with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates in effect at the reporting date. The resultant unrealised gains and losses on these unmatured contracts together with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2016 AMD'000	2015 AMD'000	2016	2015
Buy USD sell AMD				
Between 3 and 6 months	28,728,000	-	480.0	-
Sell USD buy AMD				
Between 3 and 6 months	28,800,000	-	480.0	-

11 Available-for-sale financial assets

	2016 AMD'000	2015 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	16,655,422	-
Equity instruments		
- Quoted corporate shares	1,622,385	119,951
- Unquoted corporate shares at cost	35,966	35,966
	18,313,773	**155,917**

Investments without a determinable fair value

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

12 Amounts receivable under reverse repurchase agreements

	2016 AMD'000	2015 AMD'000
Amounts receivable from Armenian banks	7,532,432	-
Amount receivable from other financial institutions	190,078	-
	7,722,510	**-**

As at 31 December 2016 the Bank has one counterparty whose amount receivable under reverse repurchase agreements exceed 10% of equity. The gross value of these balances as at 31 December 2016 is AMD 4,513,741 thousand (2015: nil).

Amounts receivables under reverse repurchase agreements are from reputable Armenian banks and other financial institutions. None of them are past due or impaired.

Collateral accepted as security for assets

As at 31 December 2016 the fair value of financial assets (Government securities of the Republic of Armenia) collateralizing reverse repurchase agreements is AMD 7,976,518 thousand (2015: nil).

13 Held-to-maturity investments

	2016 AMD'000	2015 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	-	3,480,837
- Corporate bonds	353,392	210,456
	353,392	**3,691,293**
Pledged under sale and repurchase agreements		
- Government securities of the Republic of Armenia	-	384,953
	-	**384,953**

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 repledged or resold by counterparties in the absence of any default by the Bank, but the counterparty has an obligation to return the securities when the contract matures. The Bank has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements". The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral.

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

(a) Reclassifications out of held-to-maturity investments

On 15 December 2016, the Bank reclassified certain held-to-maturity investments to available-for-sale assets for which at the date of reclassification it had no intention to hold them until maturity. The assets reclassified represent Government securities of the Republic of Armenia.

The Bank may not classify any investment as held-to-maturity for the two annual reporting periods after 31 December 2016.

14 Loans to customers

	2016 AMD'000	2015 AMD'000
Loans to corporate customers	**190,265,331**	**33,535,886**
Loans to retail customers		
Consumer loans	14,059,902	14,555,519
Express loans	5,506,676	6,963,667
Gold secured loans	4,799,332	4,624,589
Mortgage loans	3,225,789	2,983,855
Agricultural loans	319,846	316,963
Auto loans	121,242	282,991
Total loans to retail customers	**28,032,787**	**29,727,584**
Gross loans to customers	**218,298,118**	**63,263,470**
Impairment allowance	(1,261,121)	(2,562,573)
Net loans to customers	**217,036,997**	**60,700,897**

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

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	1,987,664	574,909	2,562,573
Net (recovery) charge	(916,386)	2,455,397	1,539,011
Write-offs	(756,137)	(2,084,326)	(2,840,463)
Balance at the end of the year	**315,141**	**945,980**	**1,261,121**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	1,280,446	290,554	1,571,000
Net charge	592,137	886,280	1,478,417
Write-offs (recoveries)	115,081	(601,925)	(486,844)
Balance at the end of the year	**1,987,664**	**574,909**	**2,562,573**

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	183,822,811	60,895	183,761,916	0.0%
Overdue or impaired loans:				
- not overdue	1,715,209	10,390	1,704,819	0.6%
- overdue less than 90 days	2,216,224	21,702	2,194,522	1.0%
- overdue more than 91 days and less than 1 year	2,511,087	222,154	2,288,933	8.8%
Total overdue or impaired loans	6,442,520	254,246	6,188,274	3.9%
Total loans to corporate customers	**190,265,331**	**315,141**	**189,950,190**	**0.2%**
Loans to retail customers				
Consumer loans				
- not overdue	12,573,045	67,586	12,505,459	0.5%
- overdue less than 30 days	378,085	53,567	324,518	14.2%
- overdue 31-90 days	365,224	79,346	285,878	21.7%
- overdue 91-180 days	476,874	186,387	290,487	39.1%
- overdue 181-360 days	242,065	143,929	98,136	59.5%
- overdue more than 361 days	24,609	24,609	-	100.0%
Total consumer loans	**14,059,902**	**555,424**	**13,504,478**	**4.0%**
Express loans				
- not overdue	5,152,056	47,481	5,104,575	0.9%
- overdue less than 30 days	150,307	52,396	97,911	34.9%
- overdue 31-90 days	179,661	152,563	27,098	84.9%
- overdue 91-180 days	13,085	13,085	-	100.0%
- overdue 181-360 days	11,567	11,567	-	100.0%
Total express loans	**5,506,676**	**277,092**	**5,229,584**	**5.0%**
Gold secured loans				
- not overdue	4,668,787	5,761	4,663,026	0.1%
- overdue less than 30 days	60,297	4,918	55,379	8.2%
- overdue 31-90 days	53,518	9,890	43,628	18.5%
- overdue 91-180 days	10,818	3,061	7,757	28.3%
- overdue 181-360 days	5,912	2,528	3,384	42.8%
Total gold secured loans	**4,799,332**	**26,158**	**4,773,174**	**0.5%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Mortgage loans				
- not overdue	2,987,896	59,758	2,928,138	2.0%
- overdue less than 30 days	5,212	104	5,108	2.0%
- overdue 31-90 days	36,022	720	35,302	2.0%
- overdue 91-180 days	170,515	3,410	167,105	2.0%
- overdue 181-360 days	26,144	5,229	20,915	20.0%
Total mortgage loans	**3,225,789**	**69,221**	**3,156,568**	**2.1%**
Agricultural loans				
- not overdue	293,989	233	293,756	0.1%
- overdue less than 30 days	1,337	29	1,308	2.2%
- overdue 31-90 days	7,883	499	7,384	6.3%
- overdue 91-180 days	5,445	942	4,503	17.3%
- overdue 181-360 days	11,192	10,672	520	95.4%
Total agricultural loans	**319,846**	**12,375**	**307,471**	**3.9%**
Auto loans				
- not overdue	114,598	171	114,427	0.1%
- overdue 91-180 days	4,216	3,387	829	80.3%
- overdue 181-360 days	2,428	2,152	276	88.6%
Total auto loans	**121,242**	**5,710**	**115,532**	**4.7%**
Total loans to retail customers	**28,032,787**	**945,980**	**27,086,807**	**3.4%**
Total loans to customers	**218,298,118**	**1,261,121**	**217,036,997**	**0.6%**

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	20,653,927	206,780	20,447,147	1.0%
Overdue or impaired loans:				
- not overdue	11,575,087	1,528,461	10,046,626	13.2%
- overdue less than 90 days	701,777	123,594	578,183	17.6%
- overdue more than 91 days and less than 1 year	582,016	122,260	459,756	21.0%
- overdue more than 1 year	23,079	6,569	16,510	28.5%
Total overdue or impaired loans	12,881,959	1,780,884	11,101,075	13.8%
Total loans to corporate customers	**33,535,886**	**1,987,664**	**31,548,222**	**5.9%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to retail customers				
Consumer loans				
- not overdue	13,833,750	55,335	13,778,415	0.4%
- overdue less than 30 days	174,092	20,891	153,201	12.0%
- overdue 31-90 days	173,720	31,270	142,450	18.0%
- overdue 91-180 days	159,787	47,936	111,851	30.0%
- overdue 181-360 days	110,411	56,310	54,101	51.0%
- overdue more than 361 days	103,759	85,793	17,966	82.7%
Total consumer loans	**14,555,519**	**297,535**	**14,257,984**	**2.0%**
Express loans				
- not overdue	6,708,300	13,417	6,694,883	0.2%
- overdue less than 30 days	114,660	22,932	91,728	20.0%
- overdue 31-90 days	132,889	66,443	66,446	50.0%
- overdue 91-180 days	5,306	5,306	-	100.0%
- overdue 181-360 days	2,512	2,512	-	100.0%
Total express loans	**6,963,667**	**110,610**	**6,853,057**	**1.6%**
Gold secured loans				
- not overdue	4,451,861	6,470	4,445,391	0.1%
- overdue less than 30 days	27,447	2,196	25,251	8.0%
- overdue 31-90 days	6,563	919	5,644	14.0%
- overdue 91-180 days	29,722	8,917	20,805	30.0%
- overdue 181-360 days	108,996	70,842	38,154	65.0%
Total gold secured loans	**4,624,589**	**89,344**	**4,535,245**	**1.9%**
Mortgage loans				
- not overdue	2,906,088	58,546	2,847,542	2.0%
- overdue less than 30 days	19,716	394	19,322	2.0%
- overdue 31-90 days	414	8	406	1.9%
- overdue 91-180 days	45,440	909	44,531	2.0%
- overdue 181-360 days	5,130	1,283	3,847	25.0%
- overdue more than 361 days	7,067	2,474	4,593	35.0%
Total mortgage loans	**2,983,855**	**63,614**	**2,920,241**	**2.1%**
Agricultural loans				
- not overdue	296,672	351	296,321	0.1%
- overdue less than 30 days	7,384	126	7,258	1.7%
- overdue 31-90 days	1,267	57	1,210	4.5%
- overdue 91-180 days	3,469	624	2,845	18.0%
- overdue 181-360 days	8,171	4,004	4,167	49.0%
Total agricultural loans	**316,963**	**5,162**	**311,801**	**1.6%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Auto loans				
- not overdue	240,860	251	240,609	0.1%
- overdue less than 30 days	13,277	13	13,264	0.1%
- overdue 31-90 days	6,137	61	6,076	1.0%
- overdue 91-180 days	9,926	2,993	6,933	30.2%
- overdue 181-360 days	12,791	5,326	7,465	41.6%
Total auto loans	**282,991**	**8,644**	**274,347**	**3.1%**
Total loans to retail customers	**29,727,584**	**574,909**	**29,152,675**	**1.9%**
Total loans to customers	**63,263,470**	**2,562,573**	**60,700,897**	**4.1%**

(b) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate customers

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

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

- historic annual loss rate of 0.6%;
- a discount of between 20% and 40% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral;
- no impairment loss is expected for loans secured by guarantees of banks with "B" rating per Standard and Poor's.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2016 would be AMD 1,899,502 thousand lower/higher (2015: AMD 315,482 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers 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 retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months;
- 2% loss rate for not impaired mortgage loans.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2016 would be AMD 812,604 thousand lower/higher (2015: AMD 874,580 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

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

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

AMD'000	2016 Loans to customers, carrying amount	2015 Loans to customers, carrying amount
Loans without individual signs of impairment		
Highly liquid assets	160,955,877	271,567
Bank guarantee	12,518,007	-
Real estate	7,659,242	17,502,561
Equipment	1,460,468	1,419,518
Corporate guarantee	421,498	145,415
Other collateral	100,542	155,736
No collateral (personal guarantee)	202,726	929,103
No collateral or other credit enhancement	443,556	23,247
Total loans without individual signs of impairment	**183,761,916**	**20,447,147**
Overdue or impaired loans		
Real estate	5,983,273	7,455,577
Equipment	91,619	3,568,124
Corporate guarantee	14,518	14,513
Other collateral	9,859	21,001
No collateral (personal guarantee)	86,685	40,564
No collateral or other credit enhancement	2,320	1,296
Total overdue or impaired loans	**6,188,274**	**11,101,075**
Total loans to corporate customers	**189,950,190**	**31,548,222**

The tables above excludes overcollateralisation.

The Bank has loans, for which the fair value of collateral was assessed on the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

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

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

Highly liquid assets include cash equivalents and deposits.

(ii) Loans to retail customers

Consumer loans are mainly secured by real estate. The Bank’s policy is to issue consumer loans with a loan-to-value ratio at the date of loan issuance of a maximum of 40%.

Express loans are mainly unsecured.

Gold secured loans are secured by golden jewelry. The fair value of gold securing gold loans is at least equal to carrying amounts of individual loans.

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 at the date of loan issuance of a maximum of 80%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

The fair values of the collateral were estimated at inception of the loans and were not adjusted for subsequent changes to the reporting date.

(iii) Repossessed collateral

During the year ended 31 December 2016, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 2,415,310 thousand. As at 31 December 2016, the repossessed collateral comprises real estate (2015: real estate of AMD 3,350,833 thousand and other assets of AMD 315,154 thousand):

	Carrying amount AMD’000	Impairment allowance AMD’000
Balance at 1 January 2016	3,877,971	211,984
Additions	2,415,310	-
Sales	(3,129,233)	-
Reversal of impairment	-	(211,984)
Balance at 31 December 2016	**3,164,048**	**-**

The Bank’s policy is to sell these assets as soon as it is practicable.

(iv) Transfer of assets

In December 2016, the Bank sold a portfolio of fixed rate loans to corporate customers of AMD 9,667,560 thousand (2015: nil). The Bank has determined that it has transferred substantially all of the risks and rewards to the transferee; as such, it has derecognised the portfolio.

(d) Industry and geographical analysis of the loan portfolio

Loans are issued to customers that operate in the following economic sectors:

	2016 AMD'000	2015 AMD'000
Trade and finance	179,521,037	11,998,815
Manufacturing	4,961,861	7,740,546
Hospitality	2,670,437	5,151,983
Energy	998,181	2,268,929
Construction	648,570	520,202
Transportation and communication	598,425	2,589,712
Agriculture, forestry and timber	262,469	402,462
Mining	261,859	554,341
Service	143,567	486,155
Other	198,925	1,822,741
Loans to retail customers	28,032,787	29,727,584
	218,298,118	**63,263,470**
Impairment allowance	(1,261,121)	(2,562,573)
	217,036,997	**60,700,897**

As at 31 December 2016, loans to customers with a gross value of AMD 56,915,518 thousand (2015: AMD 63,263,470 thousand) are issued to customers located within the Republic of Armenia.

(e) Assets under lien

As at 31 December 2016, loans to customers with a gross value of AMD 4,648,705 thousand (2015: AMD 4,857,325 thousand) serve as collateral for loans from credit organisations and borrowings from Government of Armenia (note 17, 20).

(f) Significant credit exposures

As at 31 December 2016, the Bank has five borrowers or groups of connected borrowers (2015: one), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2016 is AMD 173,735,158 thousand (2015: AMD 2,364,228 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 23(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Property, equipment and intangible assets

AMD'000	Buildings	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2016	4,324,746	399,057	1,141,491	825,081	88,617	500,069	7,279,061
Additions	-	57,409	20,378	34,683	5,146	54,524	172,140
Disposals/write-offs	-	(271,430)	(70,099)	(82,781)	-	(21,008)	(445,318)
Balance at 31 December 2016	**4,324,746**	**185,036**	**1,091,770**	**776,983**	**93,763**	**533,585**	**7,005,883**
Depreciation and amortisation							
Balance at 1 January 2016	622,763	255,957	671,897	430,828	68,663	232,061	2,282,169
Depreciation and amortisation for the year	80,749	8,870	101,125	61,547	6,437	30,883	289,611
Disposals/write-offs	-	(229,301)	(63,798)	(76,390)	-	(20,814)	(390,303)
Balance at 31 December 2016	**703,512**	**35,526**	**709,224**	**415,985**	**75,100**	**242,130**	**2,181,477**
Carrying amount							
At 31 December 2016	**3,621,234**	**149,510**	**382,546**	**360,998**	**18,663**	**291,455**	**4,824,406**

AMD'000	Buildings	Leasehold improvements	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/revalued amount							
Balance at 1 January 2015	4,321,924	388,263	1,246,110	741,643	88,617	436,792	7,223,349
Additions	2,822	10,794	53,281	99,813	-	63,685	230,395
Disposals/write-offs	-	-	(157,900)	(16,375)	-	(408)	(174,683)
At 31 December 2015	**4,324,746**	**399,057**	**1,141,491**	**825,081**	**88,617**	**500,069**	**7,279,061**
Depreciation and amortisation							
Balance at 1 January 2015	540,151	247,526	709,302	385,018	60,458	180,326	2,122,781
Depreciation and amortisation for the year	82,612	8,431	108,792	59,969	8,205	51,735	319,744
Disposals/write-offs	-	-	(146,197)	(14,159)	-	-	(160,356)
Balance at 31 December 2015	**622,763**	**255,957**	**671,897**	**430,828**	**68,663**	**232,061**	**2,282,169**
Carrying amounts							
At 31 December 2015	**3,701,983**	**143,100**	**469,594**	**394,253**	**19,954**	**268,008**	**4,996,892**
At 1 January 2015	**3,781,773**	**140,737**	**536,808**	**356,625**	**28,159**	**256,466**	**5,100,568**

(a) Revalued assets

In preparing 2014 financial statements management contracted independent appraisal to estimate fair value of buildings. The fair value of buildings estimated by independent appraisal has approximated the carrying value of buildings.

The basis used for the appraisal are the combination of market and income capitalization methods.

The fair value of buildings is categorised into Level 3 of the fair value hierarchy, because of significant unobservable adjustments (coefficients) to observable inputs to the valuation technique used.

Based on analysis of changes in real estate prices during 2015-2016 management believes that fair value of buildings approximates the carrying amount as at 31 December 2016.

The carrying value of buildings as at 31 December 2016, if the buildings would not have been revalued, would be AMD 3,488,529 thousand (2015: AMD 3,565,365 thousand).

16 Other assets

	2016 AMD'000	2015 AMD'000
Other receivables	147,962	1,697,707
Total other financial assets	**147,962**	**1,697,707**
Repossessed assets	3,164,048	3,665,987
Prepayments	99,317	157,161
Materials and supplies	73,964	86,826
Total other non-financial assets	**3,337,329**	**3,909,974**
Total other assets	**3,485,291**	**5,607,681**

17 Deposits and balances from banks and other financial institutions

	2016 AMD'000	2015 AMD'000
Term deposits from banks and other financial institutions	64,358,835	11,160,883
Secured loans from credit organisations	1,884,368	1,508,032
Vostro accounts	469,985	2,038,166
Unsecured loans from banks	-	1,940,479
	66,713,188	**16,647,560**

As at 31 December 2016, loans to customers with a gross value of AMD 1,881,411 thousand (2015: AMD 1,505,912 thousand) serve as collateral for secured loans from credit organizations (note 14).

As at 31 December 2016 the Bank has two banks (2015: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2016 is AMD 61,718,082 thousand (2015: AMD 5,676,359 thousand).

18 Debt securities issued

	2016 AMD'000	2015 AMD'000
Debt securities issued	**2,428,223**	**-**

In December 2016 the Bank issued bonds with nominal amount of USD 5,000 thousand and maturity in December 2018.

19 Current accounts and deposits from customers

	2016 AMD'000	2015 AMD'000
Current accounts and demand deposits		
- Retail	3,263,909	5,601,657
- Corporate	6,028,965	2,288,231
Term deposits		
- Retail	47,746,185	41,555,425
- Corporate	110,484,399	3,615,452
	167,523,458	**53,060,765**

As at 31 December 2016, the Bank has two customers (2015: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2016 are AMD 107,562,751 thousand (2015: AMD 1,995,446 thousand).

20 Other borrowed funds

	2016 AMD'000	2015 AMD'000
Borrowings from Government of Armenia	3,197,765	3,860,125
Unsecured loans from other international financial institutions	64,799	172,985
	3,262,564	**4,033,110**

As at 31 December 2016, loans to customers with a gross value of AMD 2,767,294 thousand (2015: AMD 3,351,413 thousand) serve as collateral for borrowings from Government of Armenia (note 14).

As at 31 December 2016, the Bank has no lender (2015: one lender), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 was AMD 3,860,125 thousand.

21 Other liabilities

	2016 AMD'000	2015 AMD'000
Other financial liabilities	192,707	37,292
Total other financial liabilities	**192,707**	**37,292**
Unused vacation reserve	214,490	185,786
Taxes payable other than on income	158,289	81,835
Other non-financial liabilities	172,210	50,625
Total other non-financial liabilities	**544,989**	**318,246**
Total other liabilities	**737,696**	**355,538**

22 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 679,437 ordinary shares (2015: 273,926). All shares have a nominal value of AMD 50,000 (2015: AMD 50,000).

During 2016, 405,511 ordinary shares (2015: 37,600) were issued at AMD 53,774 thousand each (2015: at nominal value).

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 surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognised or impaired.

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 derecognised or impaired.

(c) Dividends

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

No dividends were declared in 2016 and 2015.

23 Risk management

(a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to Chairman of the Management Board and indirectly to the Council of the Bank. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

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 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 determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in 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, while optimising the return on risk. Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO, based on recommendations of the Risk Department.

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2016							
ASSETS							
Cash and cash equivalents	3,000,779	-	-	-	-	27,060,710	30,061,489
Available-for-sale financial assets	42,845	901,050	889,849	5,770,337	9,051,341	1,658,351	18,313,773
Loans and advances to banks and other financial institutions	5,871	5,528	7,406	43,057	-	486,014	547,876
Amounts receivable under reverse repurchase agreements	7,722,510	-	-	-	-	-	7,722,510
Loans to customers	22,090,634	31,530,264	120,712,392	36,079,445	6,624,262	-	217,036,997
Held-to-maturity investments	-	17,515	16,687	319,190	-	-	353,392
	32,862,639	**32,454,357**	**121,626,334**	**42,212,029**	**15,675,603**	**29,205,075**	**274,036,037**
LIABILITIES							
Deposits and balances from banks and other financial institutions	23,966,430	11,362,913	29,335,127	1,221,027	357,706	469,985	66,713,188
Current accounts and deposits from customers	24,244,051	40,431,010	95,574,650	5,785,051	1,488,696	-	167,523,458
Debt securities issued	-	-	-	2,428,223	-	-	2,428,223
Other borrowed funds	358,187	34,768	667,317	1,937,573	264,719	-	3,262,564
	48,568,668	**51,828,691**	**125,577,094**	**11,371,874**	**2,111,121**	**469,985**	**239,927,433**
	(15,706,029)	**(19,374,334)**	**(3,950,760)**	**30,840,155**	**13,564,482**	**28,735,090**	**34,108,604**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2015							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	14,309,284	14,309,284
Available-for-sale financial assets	-	-	-	-	-	155,917	155,917
Loans and advances to banks and other financial institutions	40,913	4,768	10,110	58,901	2,513	489,135	606,340
Loans to customers	5,004,906	3,287,499	6,167,243	37,895,644	8,345,605	-	60,700,897
Held-to-maturity investments	51,669	177,801	400,358	1,250,318	2,196,100	-	4,076,246
	5,097,488	**3,470,068**	**6,577,711**	**39,204,863**	**10,544,218**	**14,954,336**	**79,848,684**
LIABILITIES							
Deposits and balances from banks and other financial institutions	8,599,889	1,073,459	3,654,796	977,198	304,052	2,038,166	16,647,560
Amounts payable under repurchase agreements	300,150	-	-	-	-	-	300,150
Current accounts and deposits from customers	21,208,438	9,813,576	17,537,840	3,126,427	1,374,484	-	53,060,765
Other borrowed funds	437,338	434,611	1,598,645	1,249,143	313,373	-	4,033,110
	30,545,815	**11,321,646**	**22,791,281**	**5,352,768**	**1,991,909**	**2,038,166**	**74,041,585**
	(25,448,327)	**(7,851,578)**	**(16,213,570)**	**33,852,095**	**8,552,309**	**12,916,170**	**5,807,099**

Average effective interest rates

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

	2016 Average effective interest rate, %			**2015 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents						
- Overnight deposit with CBA	4.8%	-	-	-	-	-
Available-for-sale financial assets	14.1%	-	-	-	-	-
Amounts receivable under reverse repurchase agreements	6.0%	-	-	-	-	-
Loans to customers	13.3%	9.1%	13.8%	17.6%	13.7%	11.8%
Held-to-maturity investments	10.0%	-	-	12.7%	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	14.2%	5.9%	-	17.7%	7.2%	-
- Loans from banks and other financial institutions	8.5%	-	-	8.2%	7.3%	-
Amounts payable under repurchase agreements	-	-	-	9.1%	-	-
Current accounts and deposits from customers						
- Term deposits	11.9%	6.2%	4.7%	16.2%	8.0%	5.6%
Debt securities issued	-	6.5%	-	-	-	-
Other borrowed funds	7.9%	-	-	8.4%	-	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 2015, is as follows:

	2016 AMD'000	2015 AMD'000
100 bp parallel fall	(40,574)	(204,457)
100 bp parallel rise	40,574	204,457

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

	2016	2015
	Equity AMD'000	Equity AMD'000
100 bp parallel fall	600,790	-
100 bp parallel rise	(600,790)	-

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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

	AMD	USD	EUR	Other currencies	Total
	AMD'000	**AMD'000**	**AMD'000**	**AMD'000**	**AMD'000**
ASSETS					
Cash and cash equivalents	14,462,397	14,787,844	676,731	134,517	30,061,489
Available-for-sale financial assets	16,687,680	118,995	934	1,506,164*	18,313,773
Loans and advances to banks and other financial institutions	382,444	160,482	526	4,424	547,876
Amounts receivable under reverse repurchase agreements	7,722,510	-	-	-	7,722,510
Loans to customers	55,753,769	160,681,305	558,196	43,727	217,036,997
Held-to-maturity investments	353,392	-	-	-	353,392
Other financial assets	42,903	66,470	4,904	33,685	147,962
Total assets	**95,405,095**	**175,815,096**	**1,241,291**	**1,722,517**	**274,183,999**
LIABILITIES					
Deposits and balances from banks and other financial institutions	3,347,518	63,343,737	14,053	7,880	66,713,188
Current accounts and deposits from customers	50,202,990	115,636,039	1,591,884	92,545	167,523,458
Debt securities issued	-	2,428,223	-	-	2,428,223
Other borrowed funds	3,197,765	64,799	-	-	3,262,564
Other financial liabilities	182,722	9,722	263	-	192,707
Total liabilities	**56,930,995**	**181,482,520**	**1,606,200**	**100,425**	**240,120,140**
Net position	**38,474,100**	**(5,667,424)**	**(364,909)**	**1,622,092**	**34,063,859**

* Equity investment in a Russian company

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	11,129,728	2,186,542	941,815	51,199	14,309,284
Available-for-sale financial assets	35,966	119,017	934	-	155,917
Loans and advances to banks and other financial institutions	437,921	168,323	96	-	606,340
Loans to customers	14,193,427	45,730,958	776,512	-	60,700,897
Held-to-maturity investments	4,076,246	-	-	-	4,076,246
Other financial assets	69,368	1,609,449	509	18,381	1,697,707
Total assets	**29,942,656**	**49,814,289**	**1,719,866**	**69,580**	**81,546,391**
LIABILITIES					
Deposits and balances from banks and other financial institutions	2,529,843	14,095,486	14,740	7,491	16,647,560
Amounts payable under repurchase agreements	300,150	-	-	-	300,150
Current accounts and deposits from customers	15,497,366	35,826,792	1,718,000	18,607	53,060,765
Other borrowed funds	3,860,125	172,985	-	-	4,033,110
Other financial liabilities	28,561	8,521	210	-	37,292
Total liabilities	**22,216,045**	**50,103,784**	**1,732,950**	**26,098**	**74,078,877**
Net position	**7,726,611**	**(289,495)**	**(13,084)**	**43,482**	**7,467,514**

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

	2016 AMD'000	2015 AMD'000
10% appreciation of USD against AMD	(566,742)	(28,950)
10% appreciation of EUR against AMD	(36,491)	(1,308)

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

(c) Credit risk

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

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department 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 and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments, 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. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

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

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

	2016 AMD'000	**2015 AMD'000**
ASSETS		
Cash and cash equivalents	27,849,590	11,896,132
Financial instruments at fair value through profit or loss	77,106	-
Available-for-sale financial assets	18,313,773	155,917
Loans and advances to banks and other financial institutions	547,876	606,340
Amounts receivable under reverse repurchase agreements	7,722,510	-
Loans to customers	217,036,997	60,700,897
Held-to-maturity investments	353,392	4,076,246
Other financial assets	147,962	1,697,707
Total maximum exposure	**272,049,206**	**79,133,239**

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

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see note 14.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 25.

As at 31 December 2016 and 2015 the Bank has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10 percent maximum credit risk exposure.

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.

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.

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

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

The above arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

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

AMD'000

Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised 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**		**Net amount**
				Financial instruments	**Cash collateral received**	
Amounts receivable under reverse repurchase agreements	7,722,510	-	7,722,510	7,722,510	-	-
Total financial assets	**7,722,510**	**-**	**7,722,510**	**7,722,510**	**-**	**-**
Deposits and balances from banks and other financial institutions	66,713,188	-	66,713,188	1,881,411	-	64,831,777
Other borrowed funds	3,262,564	-	3,262,564	2,767,294	-	495,270
Total financial liabilities	**69,975,752**	**-**	**69,975,752**	**4,648,705**	**-**	**65,327,047**

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

AMD'000

Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised 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**		**Net amount**
				Financial instruments	**Cash collateral received**	
Deposits and balances from banks and other financial institutions	16,647,560	-	16,647,560	1,505,912	-	15,141,648
Amounts payable under repurchase agreements	300,150	-	300,150	231,000	-	69,150
Other borrowed funds	4,033,110	-	4,033,110	3,351,413	-	681,697
Total financial liabilities	**20,980,820**	**-**	**20,980,820**	**5,088,325**	**-**	**15,892,495**

In addition to the above, 74% of gross loans to customers secured by highly liquid assets (with fair value that approximates the gross amount of loans to customers) are considered to be subject to similar to master netting arrangements as at 31 December 2016 (31 December 2015: nil).

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 amortised cost basis.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will 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 risk of losses.

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account 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 Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury 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 to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department. Under 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 the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	8,212,045	17,062,944	12,027,832	29,831,095	2,059,048	69,192,964	66,713,188
Current accounts and deposits from customers	17,627,286	8,254,758	42,314,536	98,361,334	10,449,384	177,007,298	167,523,458
Debt securities issued	-	-	78,640	78,640	2,576,981	2,734,261	2,428,223
Other borrowed funds	49,900	313,249	121,810	774,336	2,824,487	4,083,782	3,262,564
Other financial liabilities	98,603	-	-	-	-	98,603	192,707
Derivative liabilities							
- Inflow	-	-	28,800,000	-	-	28,800,000	28,800,000
- Outflow	-	-	(28,861,386)	-	-	(28,861,386)	(28,861,386)
Total financial liabilities	**25,987,834**	**25,630,951**	**54,481,432**	**129,045,405**	**17,909,900**	**253,055,522**	**240,058,754**
Credit related commitments	**2,334,608**	**-**	**-**	**-**	**-**	**2,334,608**	**-**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	7,828,892	2,959,847	1,135,955	3,870,833	1,691,835	17,487,362	16,647,560
Amounts payable under repurchase agreements	300,746	-	-	-	-	300,746	300,150
Current accounts and deposits from customers	12,694,662	8,660,928	10,229,534	18,852,100	7,305,833	57,743,057	53,060,765
Other borrowed funds	79,873	359,358	506,214	1,703,335	1,789,422	4,438,202	4,033,110
Other financial liabilities	37,292	-	-	-	-	37,292	37,292
Total financial liabilities	**20,941,465**	**11,980,133**	**11,871,703**	**24,426,268**	**10,787,090**	**80,006,659**	**74,078,877**
Credit related commitments	**2,076,507**	**-**	**-**	**-**	**-**	**2,076,507**	**-**

Under Armenian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates as follows:

	2016 AMD'000	**2015 AMD'000**
Demand and less than 1 month	7,179,226	6,113,011
From 1 to 3 months	5,663,451	3,070,615
From 3 to 6 months	10,833,221	9,328,685
From 6 to 12 months	16,728,214	17,345,580
From 1 to 5 years	6,031,254	4,415,929
More than 5 years	1,310,819	1,281,604
	47,746,185	**41,555,424**

The table below shows an analysis, by expected maturities, of 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	30,061,489	-	-	-	-	-	-	30,061,489
Financial instruments at fair value through profit or loss	-	-	77,106	-	-	-	-	77,106
Available-for-sale financial assets	-	42,845	1,790,899	5,770,337	9,051,341	1,658,351	-	18,313,773
Loans and advances to banks and other financial institutions	10,960	3,623	12,934	43,057	-	477,302	-	547,876
Amounts receivable under reverse repurchase agreements	7,722,510	-	-	-	-	-	-	7,722,510
Loans to customers	3,195,126	18,161,981	152,242,655	36,079,445	6,624,262	-	733,528	217,036,997
Held-to-maturity investments	-	-	34,202	319,190	-	-	-	353,392
Current tax asset	-	30,444	-	-	-	-	-	30,444
Property, equipment and intangible assets	-	-	-	-	-	4,824,406	-	4,824,406
Other assets	50,897	131,177	65,205	-	-	3,238,012	-	3,485,291
Total assets	**41,040,982**	**18,370,070**	**154,223,001**	**42,212,029**	**15,675,603**	**10,198,071**	**733,528**	**282,453,284**
LIABILITIES								
Financial instruments at fair value through profit or loss	-	-	61,386	-	-	-	-	61,386
Deposits and balances from banks and other financial institutions	8,169,031	16,267,384	40,698,040	1,221,027	357,706	-	-	66,713,188
Current accounts and deposits from customers	16,711,032	7,533,019	136,005,660	5,785,051	1,488,696	-	-	167,523,458
Debt securities issued	-	-	-	2,428,223	-	-	-	2,428,223
Other borrowed funds	49,819	308,368	702,085	1,937,573	264,719	-	-	3,262,564
Deferred tax liabilities	-	-	-	-	-	604,942	-	604,942
Other liabilities	263,688	-	379,904	94,104	-	-	-	737,696
Total liabilities	**25,193,570**	**24,108,771**	**177,847,075**	**11,465,978**	**2,111,121**	**604,942**	**-**	**241,331,457**
Net position	**15,847,412**	**(5,738,701)**	**(23,624,074)**	**30,746,051**	**13,564,482**	**9,593,129**	**733,528**	**41,121,827**

* Overdue portion of outstanding overdue loans

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	14,309,284	-	-	-	-	-	-	14,309,284
Available-for-sale financial assets	-	-	-	-	-	155,917	-	155,917
Loans and advances to banks and other financial institutions	7,023	38,513	14,878	58,901	2,513	484,512	-	606,340
Loans to customers	1,965,751	2,629,133	9,454,742	37,895,644	8,345,605	-	410,022	60,700,897
Held-to-maturity investments	5,945	45,724	578,159	1,250,318	2,196,100	-	-	4,076,246
Current tax asset	-	112,021	-	-	-	-	-	112,021
Property, equipment and intangible assets	-	-	-	-	-	4,996,892	-	4,996,892
Deferred tax assets	-	-	-	-	-	202,773	-	202,773
Other assets	1,744,793	-	110,075	-	-	3,752,813	-	5,607,681
Total assets	**18,032,796**	**2,825,391**	**10,157,854**	**39,204,863**	**10,544,218**	**9,592,907**	**410,022**	**90,768,051**
LIABILITIES								
Deposits and balances from banks and other financial institutions	7,784,194	2,853,861	4,728,255	977,198	304,052	-	-	16,647,560
Amounts payable under repurchase agreements	300,150	-	-	-	-	-	-	300,150
Current accounts and deposits from customers	12,670,448	8,537,990	27,351,416	3,126,427	1,374,484	-	-	53,060,765
Other borrowed funds	88,364	348,975	2,033,255	1,249,143	313,373	-	-	4,033,110
Other liabilities	82,975	-	272,563	-		-	-	355,538
Total liabilities	**20,926,131**	**11,740,826**	**34,385,489**	**5,352,768**	**1,991,909**	**-**	**-**	**74,397,123**
Net position	**(2,893,335)**	**(8,915,435)**	**(24,227,635)**	**33,852,095**	**8,552,309**	**9,592,907**	**410,022**	**16,370,928**

* Overdue portion of outstanding overdue loans

The reported ratios of highly liquid assets to demand liabilities at the reporting date are as follows:

	2016 Unaudited	**2015 Unaudited**
At 31 December	530.1%	176.9%
Average for December	360.8%	168.2%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA.

24 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commercial banks.

As at 31 December 2016 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 12% (2015:12%). The Bank is in compliance with the statutory capital ratio as at 31 December 2016 and 2015.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2016 AMD'000 Unaudited	**2015 AMD'000 Unaudited**
Core capital		
Core capital	36,380,518	16,998,654
Deductions	(3,415,529)	(3,649,208)
Total core capital	**32,964,989**	**13,349,446**
Additional capital		
Additional capital	2,542,709	237,475
Deductions	-	(156,499)
Total additional capital	**2,542,709**	**80,976**
Total capital	**35,507,698**	**13,430,422**
Total risk weighted assets, combining credit, market and operational risks	**108,111,468**	**88,160,593**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**32.8%**	**15.2%**

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 potential losses.

The Bank also monitors its capital adequacy in accordance with the Basel III.

25 Credit related commitments

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

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

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

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

	2016 AMD'000	**2015 AMD'000**
Contracted amount		
Loan and credit line commitments	696,646	636,579
Credit card commitments	741,950	690,126
Guarantees and letters of credit	896,012	749,802
	2,334,608	**2,076,507**

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. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

26 Operating leases

(a) Leases as lessee

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

	2016 AMD'000	**2015 AMD'000**
Less than 1 year	58,665	60,344
Between 1 and 5 years	105,600	105,600
More than 5 years	96,800	123,200
	261,065	**289,144**

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 then renew the lease. None of the leases includes contingent rentals.

27 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has property insurance and Banker's Blanket Bond (BBB) insurance with up to USD 3,000 thousand coverage.

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

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

28 Related party transactions

(a) Control relationships

The Bank's parent company is FISTOCO LTD. The party with ultimate control over the Bank is Mr. Vartan Dilanyan.

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

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

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

	2016 AMD'000	**2015 AMD'000**
Members of the Council of the Bank	93,464	96,504
Members of the Management Board	391,949	415,407
	485,413	**511,911**

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

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

	2016 AMD'000	**Average effective interest rate, %**	**2015 AMD'000**	**Average effective interest rate, %**
Statement of financial position				
Loans issued (gross)	131,950	10.4%	177,719	11.5%
Loan impairment allowance	(1,276)		(2,894)	
Deposits received	429,508	5.8%	358,960	8.5%

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

	2016 AMD'000	**2015 AMD'000**
Profit or loss		
Interest income	14,562	17,361
Interest expense	(25,081)	(32,631)

(c) Transactions with other related parties

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

	Shareholders		Entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Cash and cash equivalents	49,241	-	109,444	-	-	-	158,685
Loans to customers	-	-	-	-	2,256	18.0%	2,256
LIABILITIES							
Deposits and balances from banks							
- Deposits received	1,161,843	6.0%	-	-	-	-	1,161,843
- Vostro accounts	137,056	-	16,071	-	-	-	153,127
Current accounts and deposits from customers							
- Term deposits	314,578	2.0%	-	-	215,872	6.6%	530,450
- Current accounts	848	-	-	-	1,863	-	2,711
Debt securities issued	85,619	6.5%	242,677	6.5%	3,691	6.5%	331,987
Profit (loss)							
Interest income	-		-		3,113		3,113
Interest expense	(146,037)		(864)		(15,980)		(162,881)
Fee and commission income	87		7,012		327		7,426

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

	Shareholders		**Entities under common control**		**Other**		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Cash and cash equivalents	-	-	46,720	-	-	-	46,720
Loans to customers	-	-	-	-	1,503	18.0%	1,503
LIABILITIES							
Deposits and balances from banks							
- Deposits received	1,161,000	7.0%	1,051,589	7.0%	-	-	2,212,589
- Vostro accounts	1,985,139	-	12,130	-	-	-	1,997,269
Current accounts and deposits from customers							
- Term deposits	-	-	-	-	96,806	8.5%	96,806
- Current accounts	5,420	-	-	-	161,773	-	167,193
Profit (loss)							
Interest income	-		-		929		929
Interest expense	(260,780)		-		(3,270)		(264,050)
Fee and commission income	-		12,700		704		13,404

Other related parties include transactions with companies under significant influence of Council and Management Board and their close family members.

The majority of balances resulting from transactions with other related parties mature within one year. Transactions with other related parties are not secured.

29 Fair values of financial instruments

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 realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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 estimated fair values of all financial instruments except for unquoted equity securities available-for-sale as at 31 December 2016 and as at 31 December 2015 approximate their carrying amounts. The fair value of unquoted equity securities available-for-sale with a carrying value of AMD 35,966 thousand cannot be determined.

(a) Fair value hierarchy

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

AMD’000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	77,106	77,106
- Derivative liabilities	-	(61,386)	(61,386)
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	16,655,422	16,655,422
- Equity instruments	1,622,385	-	1,622,385
	1,622,385	**16,671,142**	**18,293,527**

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

AMD’000	**Level 1**
Available-for-sale financial assets	
- Equity instruments	119,951
	119,951

30 Events after the reporting period

In January 2017 bonds with nominal amount of USD 5,000 thousand issued by the Bank in 2016 became listed in Nasdaq OMX Armenia stock exchange.

In February and March 2017 the Bank issued second and third tranches of bonds with nominal amounts of USD 5,000 thousand and AMD 1,000,000 thousand, respectively.