Financial Statements and Independent Auditor's Report

GLOBAL CREDIT universal credit organization CJSC

31 December 2017

Contents

Grant Thornton

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք.Երևան 0012
Վաղարշյան 8/1
Հ. + 374 10 260 964
Ֆ.+ 374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia
T + 374 10 260 964
F + 374 10 260 961

To the shareholders of GLOBAL CREDIT universal credit organization CJSC

Opinion

We have audited the financial statements of GLOBAL CREDIT universal credit organization CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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.

- **Loan impairment allowance**

(Disclosed in note 17 of these financial statements)

Loan impairment allowance is a key audit matter due to the significance of the loans to customers as well as subjectivity of underlying assumptions for impairment estimation. The use of various assumptions and judgments may lead to significantly different estimation of loan impairment allowance, which could have material effect on the financial results of the Company. The judgments and assumptions may relate to the estimation of objective evidence of impairment, financial condition of the borrower, expected cash flows, cost of the collateral and realization period as well as losses incurred but not yet disclosed.

For estimating the impairment losses on individually significant loans we have investigated the judgments and assumptions underlying the disclosure and amounts of impairment, the market values of collaterals, as well as the forecasts of future cash flows etc.

We have reviewed the structure and effectiveness of the existing control mechanisms, the calculation of write-offs and the number of overdue days of loans, models and assumptions underlying the calculation of the collective impairment for the purpose of estimating the accuracy of allowances created as a result of the collective impairment.

We have also performed audit procedures aimed at estimating the disclosures of the credit risk in the financial statements, the disclosures of the assumptions and judgments related to the impairment allowance.

Other Matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor, who expressed unmodified opinion on those financial statements at 23 March 2017.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Gagik Gyulbudaghyan	Armen Hovhannisyan
Managing Partner	Engagement Partner

12 March 2018

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2017	Year ended 31 December 2016 (restated)
Interest and similar income	6	2,707,698	1,812,496
Interest and similar expense	6	(932,525)	(781,395)
Net interest income		1,775,173	1,031,101
Fee and commission income	7	34,378	24,504
Fee and commission expense	7	(28,342)	(9,312)
Net fee and commission income		6,036	15,192
Net trading income	8	8,510	6,629
Gains less losses on investments available for sale		18,397	-
Other income	9	201,414	151,422
Impairment charge	10	(824,128)	(397,530)
Staff costs	11	(298,140)	(223,124)
Other expenses	12	(285,345)	(200,348)
Profit before income tax		601,917	383,342
Income tax expense	13	(125,672)	(84,453)
Profit for the year		476,245	298,889
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net gains from changes in fair value from available-for-sale financial assets		5,858	3,956
Total comprehensive income for the year, net of tax		5,858	3,956
Total comprehensive income for the year		482,103	302,845

The accompanying notes on pages 10 to 52 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Assets				
Cash and cash equivalents	14	213,634	490,358	82,174
Investments available for sale				
- Held by the Company	15	370,317	291,754	270,135
- Securities pledged under repurchase agreements	15	3,018,562	-	-
Proceeds from reverse repurchase agreements	16	-	101,136	-
Loans and advances to customers	17	12,578,237	11,003,130	9,683,729
Property and equipment	18	107,886	54,806	64,056
Intangible assets	19	85,266	91,257	91,186
Deferred tax assets	13	-	5,316	1,629
Repossessed pledge property	20	155,142	-	57,600
Other assets	21	62,407	23,502	29,138
Total asstes		16,591,451	12,061,259	10,279,647
Liabilities and equity				
Liabilities				
Loans and borrowings	22	12,938,601	8,895,814	8,056,848
Debt securities issued	23	1,482,211	1,180,994	591,149
Payables on transferred but not yet unrecognised loans		-	69,858	191,307
Current income tax liabilities		28,045	8,256	34,548
Deferred income tax liabilities	13	27,590	-	-
Other liabilities	24	118,213	81,649	83,952
Total liabilities		14,594,660	10,236,571	8,957,804
Equity				
Share capital	25	1,500,000	1,500,000	1,000,000
Other reserves		14,731	8,873	4,917
Retained earnings		482,060	315,815	316,926
Total equity		1,996,791	1,824,688	1,321,843
Total liabilities ans equity		16,591,451	12,061,259	10,279,647

The financial statements from pages 6 to 52 were approved on 12 March 2018 by the Executive Director and Chief Accountant:

Luiza Igraryan	Susanna Khachatryan
Executive Director	Chief Accountant

The accompanying notes on pages 10 to 52 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of 1 January 2016	1,000,000	4,917	316,926	1,321,843
Increase in share capital	500,000	-	-	500,000
Dividends to shareholders	-	-	(300,000)	(300,000)
Transactions with owners	500,000	-	(300,000)	200,000
Profit for the year	-	-	298,889	298,889
Other comprehensive income:				
Net gains from changes in fair value	-	3,956	-	3,956
Total comprehensive income for the year	-	3,956	298,889	302,845
Balance as of 31 December 2016 (restated)	1,500,000	8,873	315,815	1,824,688
Dividends to shareholders	-	-	(310,000)	(310,000)
Transactions with owners	-	-	(310,000)	(310,000)
Profit for the year	-	-	476,245	476,245
Other comprehensive income:				
Net gains from changes in fair value	-	5,858	-	5,858
Total comprehensive income for the year	-	5,858	476,245	482,103
Balance as of 31 December 2017	1,500,000	14,731	482,060	1,996,791

The accompanying notes on pages 10 to 52 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Interest received	2,607,656	1,764,212
Interest paid	(905,742)	(766,360)
Fee and commission received	34,378	24,504
Fee and commission paid	(28,342)	(9,312)
Net gains from investments available for sale	18,397	-
Net trade income	8,510	5,142
Other income	200,589	138,904
Payments of employees and behalf of them	(270,934)	(214,687)
Other expenses	(254,156)	(180,067)
Cash flow before changes in operating assets and liabilities	1,410,356	762,336
(Increase)/decrease in operating assets		
Loans and borrowings to customers	(2,572,443)	(1,815,367)
Proceeds from reverse repurchase agreements	101,136	(100,913)
Other assets	(51,572)	14,574
Increase/(decrease) in operating liabilities		
Other liabilities	9,650	(10,775)
Net cash flow from operating activities before income tax	(1,102,873)	(1,150,145)
Income tax paid	(74,440)	(115,421)
Net cash used in operating activities	(1,177,313)	(1,265,566)
Cash flows from investing activities		
Purchase of property and equipment	(78,278)	(10,942)
Sale of repossessed property	-	57,600
Sale of investments available for sale	165,038	
Acquisition of investments available for sale	(3,194,725)	-
Net cash (used in)/from investing activities	(3,107,965)	46,658
Cash flow from financing activities		
Proceeds from issue of share capital	-	500,000
Proceeds from debt securities issued	783,860	686,510
Repayment of bonds issued	(486,864)	(100,000)
Loans and borrowings received	5,981,354	9,633,179
Loans and borrowings repayment	(1,962,876)	(8,795,581)
Dividends paid	(310,000)	(300,000)
Net cash from financing activities	4,005,474	1,624,108
Net increase/(decrease) in cash and cash equivalents	(279,804)	405,200
Cash and cash equivalents at the beginning of the year	490,358	82,174
Exchange differences on cash and cash equivalents	3,080	2,984
Cash and cash equivalents at the end of the year (Note 14)	213,634	490,358

The accompanying notes on pages 10 to 52 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

“Global Credit” UCO CJSC (the “Company”) was established in 2010 as a result of merging of “Washington Capital” UCO CJSC and “Credit Union” UCO CJSC and is a closed joint stock company. The Company is regulated by the legislation of the Republic of Armenia (RA). The Company was registered on 26 October 2010 under license N 35, granted by the Central Bank of Armenia (the “CBA”).

The Company’s main activity is mortgage, business and consumer loan extension.

The Company’s office is located in Yerevan. The Company does not have branches. The registered office of the Company is located at: Sasna Tsrer 2, area 251, Yerevan, Republic of Armenia.

2 Armenian business environment

Armenia continues to undergo political and economic changes. The stability and development of the Armenian economy largely depends on these changes, as well as developments in the Eurasian Economic Union with which the integration of the Armenian economy continues.

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Restatement of financial statements

While preparing financial statements of 2017, the Company's management has restated its financial statements for 2016 and 2015. The basis for restatement was the recalculation of revaluation reserve for available-for-sale securities and the amortized cost of the Company's borrowings (including deferred taxes).

Factoring receivables and receivables from "other assets" formed on the basis of property sold with different terms of payment have been reclassified and presented in these financial statements in the "Loans and advances to customers".

Financial statements, including comparable information of previous years, are presented as if the adjustment has been performed in the period when its implementation was needed. Thus, the adjusted amount regarding to each presented period relates to the financial information of the given year. The adjustment amount regarding the periods prior to comparable information of financial statements is adjusted in the earliest prior period presented. However, the performed adjustment has not had an effect on the financial result of 2015.

Statement of financial position

In thousand Armenian drams	As of 31 December 2016	Restatement	Reclassification	As of 31 December 2016 (restated)
Assets				
Loans and advances to customers	10,951,178	-	51,952	11,003,130
Factoring receivables	25,507	-	(25,507)	-
Deferred tax assets	4,120	1,196	-	5,316
Other assets	49,947	-	(26,445)	23,502
Liabilites and equity				
Loans and borrowings	8,903,132	(7,318)	-	8,895,814
Other reserves	22,746	(13,873)	-	8,873
Retained earnings	293,428	22,387	-	315,815

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	As of 1 January 2016	Reclassification	As of 1 January 2016 (restated)
Assets			
Loans and advances to customers	9,578,051	105,678	9,683,729
Factoring receivables	70,473	(70,473)	-
Other assets	64,343	(35,205)	29,138

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Year ended 31 December 2016	Restatement	Reclassification	Year ended 31 December 2016 (restated)
Interest and similar income	1,795,155	17,341	-	1,812,496
Interest and similar expense	(788,713)	7,318	-	(781,395)
Net interest income	19,146	-	(12,517)	6,629
Other income	138,905	-	12,517	151,422
Income tax expense	(82,181)	(2,272)	-	(84,453)

3.5 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2017, did not have a material impact on the annual consolidated financial statements of the Company.

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*

- *Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12).*

3.6 Standards and interpretations not yet applied by the Company

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

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

IFRS 9 Financial Instruments (2014)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

The adoption of the new standard may have a material impact on the opening balance of the Company's equity as of 1 January 1 2018.

The above assessment is preliminary because not all transition work has been finalised. Especially, The Company has not yet completed to revise its accounting processes and internal controls changes in accordance with IFRS 9, the refining and finalising its models for ECL calculations and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

Classification – Financial assets and Financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.
IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

A financial asset is classified into one of these categories on initial recognition.

It eliminates the existing IAS 39 categories of held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

– Loans and advances to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

– Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

– The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9.

The classification and measurement assessment as at 31 December 2016 may not necessarily represent the impact on the Company's financial statements as at 1 January 2018 because IFRS 9 requires the business model assessment to be undertaken based on the facts and circumstances that exist at the date of initial application, which will be 1 January 2018 for the Company.

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

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

– the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and

– the remaining amount of the change in the fair value will be presented in profit or loss

Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The Company will recognize loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

– financial assets measured at amortised cost
– financial assets measured at fair value through other comprehensive income
– lease receivables
– loan commitments to provide a loan
– financial guarantee contracts

Under IFRS 9, no impairment loss is recognised on equity investments.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas,

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
– incorporating forward-looking information into the measurement of ECLs;
– Definition of default.

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

– PD;
– loss given default (LGD); and
– exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

The most significant impact on the Company's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. Loss allowances on unsecured products with longer expected lives such as overdrafts and credit cards will be most affected by the new impairment requirements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

– The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

– The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

If a debt investment security has low credit risk at 1 January 2018, then the Company will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 16 Leases

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

IFRS 16 also:

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

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

Other standards

The following amended standards and interpretations are not expected to have significant impact on the Company's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018).
- Amendments to IAS 40 Investment Property: Transfers of Investment Property (effective from 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019).

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

	31 December 2017	31 December 2016	1 January 2016
AMD/1 US Dollar	484.10	483.94	483.75
AMD/1 EUR	580.10	512.20	528.69

4.3 Taxation

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and accounts in other banks.

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from other financial institutions

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

4.6 Financial instruments

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

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

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

The Company classified its financial assets into the following categories:

- financial instruments at fair value through profit or loss
- loans and receivables,
- available-for-sale financial instruments.

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

Financial assets at fair value through profit or loss

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

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

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

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

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

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of profit or loss and other comprehensive income.

Loans and receivables

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

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

Available-for-sale financial assets

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

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

4.7 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss and other comprehensive income, is transferred from equity to the statement of profit or loss and other comprehensive income.

Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.8 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

As part of its operational activities, the Company securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Reference should be made to the accounting policy on "Derecognition of financial assets and financial liabilities". Interests in the securitised financial assets may be retained by the Company and are primarily classified as financial assets recorded at fair value through profit or loss, and gains and losses are reported in "Net trading income". Gains or losses on securitizations are based on the carrying amount of the financial assets derecognized and the retained interest, based on their relative fair values at the date of the transfer.

Financial liabilities

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

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

4.9 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.10 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.11 Leases

Operating - Company as lessee

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

4.12 Property and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	Rate (%)
Computers	3	33.33
Vehicles	5	20
Other fixed assets	1-5	20-100

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are not depreciated.

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

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

4.13 Goodwill

Goodwill acquired as a result of business combinations is initially recorded in an amount equal to the excess of the transferred consideration over the net identifiable acquired assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less impairment losses.

Goodwill is reviewed for impairment annually or more frequently if any events or changes in circumstances indicate a possible impairment of the carrying amount.

With the aim of valuation for impairment, goodwill acquired in a business combination is distributed between the cash-generating groups or cash-generating units since the date of acquisition that are expected to receive gains as a result of business combination. Each cash-generating unit or group of cash-generating units to which the goodwill relates:

- represent the lowest of administrative unit in the group from the viewpoint of goodwill analysis for the purpose of internal management.
- the entity shall not exceed the operating segments definition in accordance with IFRS 8 "Operating Segments".

Goodwill impairment is measured on the basis of the recoverable amount of the cash-generating unit (or cash-generating unit group). Impairment losses are recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed.

4.14 Intangible assets

Intangible assets include computer software, licences and other. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 13 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.15 Repossessed assets

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

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 Provisions

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

4.19 Equity

Share capital

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

Retained earnings

Retained earnings Include retained earnings of current and previous periods.

Dividends

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

Revaluation reserve for available-for-sale investments

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

4.20 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 28).

Classification of investment securities

Securities owned by the Company comprise Armenian state and corporate shares. Upon initial recognition, the Company classifies securities as available-for-sale financials assets with recognition of changes in fair value through equity.

Useful Life of PPE

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

Fair value of derivatives

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

Related party transactions

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

Impairment of loans and receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 26.

Impairment of available-for-sale equity investments

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

Goodwill impairment

The Company assesses goodwill for each reporting date to determine whether objective evidence of impairment exists. Goodwill impairment is measured on the basis of the recoverable amount of cash-generating units.

6 Interest and similar income and expense

In thousand Armenian drams	**2017**	**2016 (restated)**
Cash and cash equivalents	139	1,481
Loans and advances to customers	2,530,830	1,752,358
Financial assets available-for-sale	113,671	39,519
Reverse repurchase transactions	1,919	9,676
Interest accrued on individually impaired financial assets	61,139	9,462
Total interest and similar income	2,707,698	1,812,496
Debt securities issued	118,189	59,060
Loans and borrowings	790,546	722,257
Repurchase transactions	23,790	78
Total interest and similar expense	932,525	781,395

7 Fee and commission income and expense

In thousand Armenian drams	2017	2016
Cash operations	14,749	1,596
Insurance agent activity	7,562	5,123
Factoring	4,692	11,863
Guarantees	7,150	5,714
Other fees and commissions	225	208
Total other fees and commissions	34,378	24,504
Payment and settlement services	28,342	9,312
Total fee and commission expense	28,342	9,312

8 Net trading income

In thousand Armenian drams	2017	2016 (restated)
Gains less losses from trading in foreign currencies	8,510	5,142
Net income from derivatives	-	1,487
Total net trading income	8,510	6,629

9 Other income

In thousand Armenian drams	2017	2016 (restated)
Fines and penalties received	198,395	136,157
Gains less losses from sale of property and equipment	-	429
Gains less losses from foreign exchange translation of non-trading assets	825	12,517
Other income	2,194	2,319
Total other income	201,414	151,422

10 Impairment charge

In thousand Armenian drams	2017	2016
Loans and advances to customers (Note 17)	811,462	390,902
Other assets (Note 21)	12,666	6,628
Total impairment charge of assets	824,128	397,530

11 Staff costs

In thousand Armenian drams	2017	2016
Compensations of employees, related taxes included	297,677	222,714
Staff training costs	402	410
Other staff costs	61	-
Total staff costs	298,140	223,124

12 Other expenses

In thousand Armenian drams	2017	2016
Advertising costs	58,833	40,792
Lease	31,180	31,180
Taxes, other than income tax, duties	27,552	21,193
Fixed assets maintenance	24,222	17,124
Office supplies	25,672	17,177
Depreciation of PPE and amortization of intangible assets	23,455	20,280
Loan collection legal services	30,691	-
Loan provision and return expenses	14,505	15,441
Business trip expenses	2,467	2,511
Financial mediator fees	8,455	7,113
Consulting and other services	7,908	5,200
Goodwill impairment	7,734	-
Representative expenses	5,201	2,594
Other expenses	17,470	19,743
Total other expense	285,345	200,348

13 Income tax expense

In thousand Armenian drams	2017	2016 (restated)
Current tax expense	94,229	78,644
Adjustments of current income tax of previous years	-	10,485
Deferred tax	31,443	(4,676)
Total income tax expense	125,672	84,453

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2016: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2017	Effective rate (%)	2016 (restated)	Effective rate (%)
Profit before tax	601,917		383,342	
Income tax at the rate of 20%	120,383	20	76,668	20
Non-deductible expenses	10,598	1.8	1,822	0.5
Foreign exchange gains	(165)	-	(2,503)	(0.7)
Effect of the unrecognized deferred tax asset from the accumulated tax losses	(5,144)	(0.9)	(2,018)	(0.5)
Adjustments of current tax for prior years	-	-	10,485	2.7
Income tax expense	125,672	20.9	84,454	22.0

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2016 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2017
Loans and advances to customers	9,380	(9,380)	-	-
Loans and borrowings	-	229	-	229
Other liabilities	4,279	5,097	-	9,376
Total deferred tax assets	13,659	(4,054)	-	9,605
Loans and advances to customers	-	(29,759)	-	(29,759)
Investments in securities	(5,687)		(1,463)	(7,150)
Other assets	(1,422)	1,136	-	(286)
Loans and borrowings	(1,234)	1,234	-	-
Total deferred tax liability	(8,343)	(27,389)	(1,463)	(37,195)
Net deferred tax asset/(liability)	5,316	(31,443)	(1,463)	(27,590)

In thousand Armenian drams	As of 1 January 2016 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2016 (restated)
Loans and advances to customers	-	9,380	-	9,380
Other liabilities	3,217	1,062	-	4,279
Total deferred tax assets	3,217	10,442	-	13,659

In thousand Armenian drams	As of 1 January 2016 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2016 (restated)
Investments in securities	(1,230)	(3,468)	(989)	(5,687)
Other assets	(358)	(1,064)	-	(1,422)
Loans and borrowings	-	(1,234)		(1,234)
Total deferred tax liability	(1,588)	(5,766)	(989)	(8,343)
Net deferred tax asset	1,629	4,676	(989)	5,316

14 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016	1 January 2016
Cash on hand	148,528	80,936	13,128
Banking accounts with the banks	65,106	409,422	69,046
Total cash and cash equivalents	213,634	490,358	82,174

As of 31 December 2017 the amounts of correspondent accounts in amounts of AMD 37,399 thousand (57%) (2016: AMD 181,744 thousand (44%)) were due from one commercial bank, which represent significant concentration.

Non-cash transactions performed during 2017 are represented by repayment of AMD 155,142 thousand loan by repossessed collateral (2016: nil).

15 Investments available for sale

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016	1 January 2016
RA state bonds	3,378,879	269,509	247,896
Shares of RA organizations	10,000	-	-
Participation Certificates	-	22,245	22,239
Total investments available for sale	3,388,879	291,754	270,135

As of 31 December 2017 investments available for sale included bonds pledged under repurchase agreements amounting to AMD 3,018,562 thousand (2016, 2015: nil) (refer to note 22).

All debt securities have fixed coupons.

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

All unquoted available-for-sale equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments.

Unlisted equity investments consist of Company's investments in "Coding Pro" CJSC and "AR MAGIC" CJSC (the investment is 9,99% each).

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

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	%	Maturity	%	Maturity
RA state bonds	9.7-14.4	2018-2047	13.8-14.4	2017-2018

In 2015 the Company acquired the participation certificates issued by the Loan Pertfolio Securitization Fund 1.

On 22 November 2017 in the connection of self-liquidation of the Loan Portfolio Securitization Fund 1 the Company, as an owner of C class (in AMD) and A class (in USD) participation certificates, received, respectively, AMD 13,746 thousand and USD 55,650 from the fund's manager.

16 Proceeds on reverse repurchase agreements

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016	As of 1 January 2016
Proceeds on financial institutions	-	101,136	-

Collateral

As of 31 December 2016 the RA state bonds with fair value of AMD 101,796 thousand were pledged as collateral for proceeds on reverse repurchase agreements.

17 Loans and advances to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Loans to customers	12,679,747	10,878,658	9,349,285
Overdrafts and credit lines	314,890	378,854	408,864
Factoring	8,292	26,555	74,100
	13,002,929	11,284,067	9,832,249
Less allowance for loans and advances impairment	(424,692)	(280,937)	(148,520)
Total loans and advances to customers	12,578,237	11,003,130	9,683,729

During the year ended 31 December 2017 the Company obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 155,142 thousand (2016: nil). The Company is intended to sell these assets in a short period (refer to note 20).

As of 31 December 2017 the weighted average effective interest rate on loans and advances to customers is 41.1% for loans in AMD (2016: 28.93%) and 22.4 % for loans in USD (2016: 17.3%).

As of 31 December 2017 there are no borrowers whose loans provided by the Company will exceed 10% of equity (2016: two borrowers, the loan balances in the amount of AMD 450,637 thousand).

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

In thousand Armenian drams	Industry	Construc-tion	Trading	Consumer	Agricul-ture	Mortgage	Service	Gold secured	Other	Total
										As of 31 December 2017
Loans	451,658	157,604	1,321,977	2,722,151	1,547,046	6,169,604	209,724	53,360	369,805	13,002,929
Less allowance for loan impairment	(4,228)	(28,421)	(13,220)	(138,959)	(57,642)	(76,274)	(2,097)	(534)	(103,317)	(424,692)
Net loans	447,430	129,183	1,308,757	2,583,192	1,489,404	6,093,330	207,627	52,826	266,488	12,578,237

In thousand Armenian drams	Industry	Construc-tion	Trading	Consumer	Agricul-ture	Mortgage	Service	Gold secured	Other	Total
										As of 31 December 2016
Loans	628,459	190,387	1,090,419	1,321,551	1,405,090	5,462,194	221,519	148,079	816,369	11,284,067
Less allowance for loan impairment	(7,143)	(15,971)	(25,568)	(93,794)	(44,531)	(75,205)	(2,830)	(2,108)	(13,787)	(280,937)
Net loans	621,316	174,416	1,064,851	1,227,757	1,360,559	5,386,989	218,689	145,971	802,582	11,003,130

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

In thousand Armenian drams	Industry	Construc-tion	Trading	Consumer	Agricul-ture	Mortgage	Service	Gold secured	Other	Total
										2017
At 1 January 2017	7,143	15,971	25,568	93,794	44,531	75,205	2,830	2,108	13,787	280,937
Charge/(Reversal) for the year	2,794	1,078	8,051	390,804	148,276	2,280	890	(1,903)	259,192	811,462
Net (amounts written off)/recovery	(5,709)	11,372	(20,399)	(345,639)	(135,165)	(1,211)	(1,623)	329	(169,662)	(667,707)
At 31 December 2017	4,228	28,421	13,220	138,959	57,642	76,274	2,097	534	103,317	424,692
Individual impairment	-	27,467	-	26,820	8,749	15,125	-	-	84,857	163,018
Collective impairment	4,228	954	13,220	112,139	48,893	61,149	2,097	534	18,460	261,674
	4,228	28,421	13,220	138,959	57,642	76,274	2,097	534	103,317	424,692
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	62,208	-	38,451	70,805	54,696	-	-	121,225	347,385

In thousand Armenian drams										2016
	Industry	Construc-tion	Trading	Consumer	Agricul-ture	Mortgage	Service	Gold secured	Other	Total
At 1 January 2016	12,754	4,350	11,857	15,517	26,647	63,202	1,720	2,181	10,292	148,520
Charge/(Reversal) for the year	7,845	22,632	(2,418)	154,097	99,633	77,236	2,473	(296)	29,700	390,902
Net (amounts written off)/recovery	(13,456)	(11,011)	16,129	(75,820)	(81,749)	(65,233)	(1,363)	223	(26,205)	(258,485)
At 31 December 2016	7,143	15,971	25,568	93,794	44,531	75,205	2,830	2,108	13,787	280,937
Individual impairment	-	14,067	-	-	-	-	-	-	-	14,067
Collective impairment	7,143	1,904	25,568	93,794	44,531	75,205	2,830	2,108	13,787	266,870
	7,143	15,971	25,568	93,794	44,531	75,205	2,830	2,108	13,787	280,937
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	55,659	-	-	-	-	-	-	-	55,659

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Privately held companies	1,904,135	2,027,288
Individuals	10,216,498	7,916,539
Sole entrepreneurs	761,071	1,025,600
Non-commercial institutions	121,225	314,640
	13,002,929	11,284,067
Less allowance for loans and advances impairment	(424,692)	(280,937)
Total loans and advances to customers	12,578,237	11,003,130

Loans to individuals comprise the following products:

In thousand Armenian drams	2017	2016
Mortgage loans	6,169,604	5,462,194
Consumer loans	2,722,151	1,321,551
Agriculture	1,210,599	923,145
Gold secured loans	53,360	148,079
Other	60,784	61,570
Total loans and advances to individuals (gross)	10,216,498	7,916,539

As of 31 December 2017 the right of demand on loans in the amount of AMD 5,619,339 thousand (2016: AMD 5,964,620 thousand) were pledged as collateral for loans and borrowings from other organizations (refer to note 22).

In December 2015, the Company has implemented a loan portfolio securitization. As a part of securitization process, the Company acquired participation certificates issued by Loan Portfolio Securitization Fund I (refer to note 15).

As of 31 December 2016, the carrying value of business and consumer loans transferred to Loan Portfolio Securitization Fund I amounts to AMD 50,410 thousand and AMD 19,448 thousand, respectively. The L Portfolio Securitization Fund I is an institution not essentially controlled by the Company. Since the Company has not transferred all risks and rewards relating to assets ownership, these loans have been included in the statement of financial position. The company continued to serve as a creditor until November 2017.

As disclosed in note 28, as of 31 December 2017 and 2016 the estimated fair value of loans and advances is approximate their carrying value.

Risks related to loan portfolio are disclosed in note 31.

Information about related parties is disclosed in note 27.

Maturity analysis on loans and advances to customers are disclosed in note 30.

18 Property and equipment

In thousand Armenian drams	Computer equipment	Vehicles	Office equipment	Total
Cost				
At 1 January 2016	27,873	14,780	62,732	105,385
Additions	4,742	-	5,383	10,125
Disposals	-	(3,380)	-	(3,380)
At 31 December 2016	32,615	11,400	68,115	112,130
Additions	22,163	-	52,980	75,143
At 31 December 2017	54,778	11,400	121,095	187,273
Accumulated depreciation				
At 1 January 2016	18,270	9,511	13,548	41,329
Charge for the year	4,983	1,823	12,140	18,946
Disposals	-	(2,951)	-	(2,951)
At 31 December 2016	23,253	8,383	25,688	57,324
Charge for the year	5,931	1,578	14,554	22,063
At 31 December 2017	29,184	9,961	40,242	79,387
Carrying value				
At 1 January 2016	9,603	5,269	49,184	64,056
At 31 December 2016	9,362	3,017	42,427	54,806
At 31 December 2017	25,594	1,439	80,853	107,886

Fully depreciated items

As of 31 December 2017 fixed assets included fully depreciated assets in amount of AMD17,548 thousand (2016: AMD 14,738 thousand).

Restrictions on title of fixed assets

As of 31 December 2017, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

19 Intangible assets

In thousand Armenian drams	Acquired software licenses	Goodwill	Total
Cost			
At 1 January 2016	17,931	77,336	95,267
Additions	1,405	-	1,405
At 31 December 2016	19,336	77,336	96,672
Additions	3,135	-	3,135
Impairment	-	(7,734)	(7,734)
At 31 December 2017	22,471	69,602	92,073
Accumulated amortization			
At 1 January 2016	4,081	-	4,081
Amortisation charge	1,334	-	1,334
At 31 December 2016	5,415	-	5,415
Amortisation charge	1,392	-	1,392
At 31 December 2017	6,807	-	6,807
Carrying value			
At 1 January 2016	13,850	77,336	91,186
At 31 December 2016	13,921	77,336	91,257
At 31 December 2017	15,664	69,602	85,266

As of 31 December 2017, the Company does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

20 Repossessed collateral

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016	As of 1 January 2016
Real estate	155.142	-	57,600
	155,142	-	57,600

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

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

21 Other assets

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Receivables and other proceeds	32,519	17,179	51
Proceeds from investment fund	-	-	24,427
Total other financial assets	32,519	17,179	24,478
Less allowance for other assets impairment	(3,310)	-	-
Total other financial assets	29,209	17,179	24,478
Prepayments	32,747	5,823	4,660
Other assets	451	500	-
Total non-financial assets	33,198	6,323	4,660
Total other assets	62,407	23,502	29,138

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	Total
At 1 January 2016	-
Charge for the year	6,628
Amounts written off	(6,628)
At 31 December 2016	-
Charge for the year	12,666
Amounts written off	(9,356)
At 31 December 2017	3,310

22 Loans and borrowings

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Loans from the Central Bank of Armenia	67,195	114,224	188,619
Loans from refinancing credit organizations	4,300,856	4,350,213	3,574,194
Bank loans under repurchase agreements	2,839,416	-	-
Bank loans and credit lines	1,529,733	558,436	621,090
Loans from RA Government through international programs	1,350,164	1,488,025	1,270,079
Borrowings from commercial and non-commercial organizations	2,049,619	1,583,592	1,091,447
Borrowings from shareholders	801,618	801,324	1,311,419
Total amounts due to financial institutions	12,938,601	8,895,814	8,056,848

As of 31 December 2017 the weighted average effective interest rate for loans and borrowings in AMD was 8.6% (2016: 7.8%) and 8.7% (2016: 8.8%) for loans and borrowing in USD.

As of 31 December 2017 the Company has loans and borrowings from eleven organizations and two individuals (2016: ten organization), whose loan balances exceed 10% of equity. The total amount of such loans as of 31 December 2017 is AMD 9,634,482 thousand (2016: AMD 8,092,390 thousand).

The Company's current accounts turnover and the shareholders' guarantees are pledged for bank loans and credit lines.

As of 31 December 2017 the Company's right of demand on loans to customers in the amount of AMD 5,619,339 thousand (2016: AMD 5,964,620 thousand) were pledged as collateral for loans and borrowings in the amount of 5,770,140 thousand (2016: AMD 6,005,567 thousand).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2016: either).

23 Debt securities issued

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Bonds	1,482,211	1,180,994	591,149
Total debt securities issued	1,482,211	1,180,994	591,149

As of 31 December 2017 bonds issued at the nominal value of AMD 1,468,200 thousand (2016: AMD 1,167,880 thousand) are listed in "NASDAQ OMX Armenia".

As of 31 December 2017 the average effective interest rates on debt securities issued was 11.9% for securities in AMD (2016: 14%) and 8.2% for securities in USD (2016: 9.3%).

The Company has not repurchased any of its own debt securities during the year (2016: either).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2016: nil).

24 Other liabilities

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016	As of 1 January 2016
Accounts payables	32,240	35,137	41,960
Due to personnel	51,261	24,055	15,457
Subsidized interests	22,465	22,387	19,022
Total other financial liabilities	105,966	81,579	76,439
Tax payable, other than income tax	12,247	70	7,513
Total othernon- financial liabilities	12,247	70	7,513
Total other liabilities	118,213	81,649	83,952

25 Equity

As of 31 December 2017 the Company’s registered and paid-in share capital was AMD 1,500,000 thousand. In accordance with the Company’s statues, the share capital consists of 1,500,000 ordinary shares, all of which have a par value of AMD 1,000 each.

The respective shareholdings as of 31 December 2017 and 2016 may be specified as follows:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Gagik Vardanyan	502,949	33.53
Eduard Marutyan	499,971	33.33
Arayik Karapetyan	421,779	28.12
Karen Darbinyan	75,301	5.02
	1,500,000	100

As of 31 December 2017, the Company did not possess any of its own shares.

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

In 2016 the shareholders of the Company increased its share capital by AMD 500,000 thousand.

At the Shareholders' Meeting in April 2017, the Company declared dividends in respect of the year ended 31 December 2016, totaling AMD 310,000 thousand

26 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Therefore, the Company has not made any respective provision related to such tax and legal matters.

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Undrawn loan commitments	38,795	55,703
Guarantees	650,000	1,085,072
Total commitments and contingent liabilities	688,795	1,140,775

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

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into commercial lease agreements for office equipment, central office and branch facilities.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Not later than 1 year	9,354	9,354
Total operating lease commitments	9,354	9,354

Insurance

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

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

The Company has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Armenia at present.

27 Transactions with related parties

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

The Company does not have ultimate controlling party.

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

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

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Proceeds on reverse repurchase agreements				
At 1 January	101,136	-	-	-
Repayments during the year	37,074	-	1,397,832	-
Agreements signed during the year	(138,210)	-	(1,296,696)	-
At 31 December	-	-	101,136	-

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Loans and advances to customers				
Loans outstanding at 1 January gross	161,270	42,871	250,383	25,762
Loans issued during the year	627,281	16,695	506,641	29,310
Loan repayments during the year	(738,261)	(11,139)	(595,754)	(12,201)
Loans outstanding at 31 December, gross	50,290	48,427	161,270	42,871
Less allowance for loan impairment	(503)	(485)	(1,613)	(429)
Loans outstanding at 31 December	49,787	47,942	159,657	42,442
Loans and borrowings				
At 1 January	932,038	-	1,311,419	-
Received during the year	671,578	-	255,620	-
Repaid during the year	(801,998)	-	(635,001)	-
At 31 December	801,618	-	932,038	-
Advances issued	30,000	-	-	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	18,125	5,696	19,385	3,925
Interest income on reverse repurchase agreements	1,919	-	9,676	-
Impairment (charge)/reversal	1,110	(56)	891	(172)
Interest expense on borrowings	(87,808)	-	(125,451)	-
Lease expenses	(31,180)	-	(31,180)	-
Other expenses	(8,062)	-	(5,000)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and bonuses	72,226	56,001
Total key management compensation	72,226	56,001

The loans issued to key management personnel and parties related with them during the year are repayable monthly over 1-14 years and have interest rates of 9-18% (2016: 10-18%). The loans advanced are collateralised by real estate and guarantees.

28 Fair value measurement

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

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

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

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

28.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	213,634	-	213,634	213,634
Loans and advances to customers	-	12,578,237	-	12,578,237	12,578,237
Other assets		29,209		29,209	29,209
Financial liabilities					
Loans and borrowings	-	12,930,841	-	12,930,841	12,938,601
Debt securities Issued	-	1,482,211	-	1,482,211	1,482,211
Other liabilities	-	105,966	-	105,966	105,966

In thousand Armenian drams	As of 31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	490,358	-	490,358	490,358
Proceeds on reverse repurchase agreements	-	101,136	-	101,136	101,136
Loans and advances to customers	-	11,003,130	-	11,003,130	11,003,130
Other assets	-	17,179	-	17,179	17,179
Financial liabilities					
Loans and borrowings	-	8,890,839	-	8,890,839	8,895,814
Debt securities issued	-	1,180,994	-	1,180,994	1,180,994
Payables on transferred but not yet unrecognised loans	-	69,858	-	69,858	69,858
Other liabilities	-	81,579	-	81,579	81,579

Amounts due from and to financial institutions

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

Loans and advances to customers

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

Attracted loans and borrowings, issued securities

The fair value of attracted loans and borrowings from financial institutions and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms.

28.2 Financial instruments that are measured at fair value

In thousand Armenian drams				As of 31 December 2017
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities available for sale	-	3,378,879	-	3,378,879
Total	-	3,378,879	-	3,378,879
Net fair value	-	3,378,879	-	3,378,879

In thousand Armenian drams				As of 31 December 2016
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities available for sale	-	269,509	-	269,509
Total	-	269,509	-	269,509
Net fair value	-	269,509	-	269,509

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

Unlisted equity investments.

See Note 15 for further information about this equity investment.

29 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	As at 31 December 2017					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Securities pledged under repurchase agreements (Note 15,22)	2,839,416	-	2,839,416	3,018,562	-	(179,146)
Total financial liabilities	2,839,416	-	2,839,416	3,018,562	-	(179,146)

In thousand Armenian drams	As at 31 December 2016					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial assets						
Proceeds under repurchase agreements (Note 16)	101,136	-	101,136	(101,136)	-	-
Total financial assets	101,136	-	101,136	(101,136)	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position and disclosed in the above tables are measured in the statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing are measured at amortised cost

30 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 31.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	2017						
	Demand and less than 1 month	**From 1 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash and cash equivalents	213,634	-	*213,634*	-	-	-	213,634
Investments available for sale							
- Held by the Company	-	107,824	*107,824*	10,000	252,493	*262,493*	370,317
- Securities pledged under repurchase agreements	2,961,367	57,195	*3,018,562*	-	-	-	3,018,562
Loans and advances to customers	503,960	2,759,874	*3,263,834*	5,081,797	4,232,606	*9,314,403*	12,578,237
Other assets	29,209	-	*29,209*	-	-	-	29,209
	3,708,170	2,924,893	*6,633,063*	5,091,797	4,485,099	*9,576,896*	16,209,959
Liabilities							
Loans and borrowings	2,870,465	1,965,909	*4,836,374*	6,184,123	1,918,104	*8,102,227*	12,938,601
Debt securities issued	-	514,208	*514,208*	968,003	-	*968,003*	1,482,211
Other liabilities	67,884	38,082	*105,966*	-	-	-	105,966
	2,938,349	2,518,199	*5,456,548*	7,152,126	1,918,104	*9,070,230*	14,526,778
Net position	769,821	406,694	*1,176,515*	(2,060,329)	2,566,995	*506,666*	1,683,181
Accumulated gap	769,821	1,176,515		(883,814)	1,683,181		

In thousand Armenian drams							2016
	Demand and less than 1 month	**From 1 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash and cash equivalents	490,358	-	*490,358*	-	-	-	490,358
Investments available for sale	-	175,530	*175,530*	116,224	-	*116,224*	291,754
Proceeds under repurchase agreements	101,136	-	*101,136*	-	-	-	101,136
Loans and advances to customers	287,775	2,465,230	*2,753,005*	4,396,664	3,853,461	*8,250,125*	11,003,130
Other assets	17,179	-	*17,179*	-	-	-	17,179
	896,448	2,640,760	*3,537,208*	4,512,888	3,853,461	*8,366,349*	11,903,557
Liabilities							
Loans and borrowings	174,927	1,054,586	*1,229,513*	5,215,352	2,450,949	*7,666,301*	8,895,814
Debt securities issued	-	497,054	*497,054*	683,940	-	*683,940*	1,180,994
Payables on transferred but not yet unrecognised loans	7,457	45,994	*53,451*	16,407	-	*16,407*	69,858
Other liabilities		81,579	*81,579*	-	-	-	81,579
	182,384	1,679,213	*1,861,597*	5,915,699	2,450,949	*8,366,648*	10,228,245
Net position	714,064	961,547	*1,675,611*	(1,402,811)	1,402,512	*(299)*	1,675,312
Accumulated gap	714,064	1,675,611		272,800	1,675,312		

31 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Director

The Executive Director is responsible for the implementation and monitoring of the risk management process, asset and liability management. The Executive Director is also responsible for Company's liquidity and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for the risk management in the process of loan provision.

Controller

Risk management processes throughout the Company are audited annually by the Controller function that examines both the adequacy of the procedures and the Company's compliance with the procedures. Controller discusses the results of all assessments with management, and reports its findings and recommendations to the Company's Board.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

31.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Company and reported to the Board of Directors regularly.

The carrying amounts of the Company's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

31.1.2 Risk concentrations

Geographical sectors

Credit risk assets are fully located in the RA.

Loan placements by economy branches are disclosed on Note 15.

31.1.3 Risk limit control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk are approved by the Board of Directors.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Moveable property
- Precious metal, gold scrape

In order to minimise the credit loss the Company will seek additional collateral from the counterparty.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Bonds and other debt securities are generally unsecured.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans collateralized by real estate	6,821,223	6,645,121
Loans collateralized by inventories	1,095,733	505,939
Loans collateralized by securities	-	34,803
Loans collateralized by fixed assets	243,666	388,548
Loans collateralized by vehicles	1,417,707	900,211
Loans collateralized by gold jewellery or other gold items	53,360	148,079
Loans collateralized by guarantees of financial institutions and individuals	1,501,032	1,898,079
Unsecured loans	851,212	676,845
Other collateral	1,018,996	86,442
Total loans and advances to customers (gross)	13,002,929	11,284,067

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

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

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

31.1.4 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**As of 31 December 2017**	**As of 31 December 2016**
Loans and advances to customers		
Industry	1.56%	1.2%
Construction	-	1.7%
Trading	0.5%	-
Consumer	4.18%	2.5%
Agriculture	3.3%	0.8%
Mortgage	0.8%	0.7%
Service	0.47%	0.2%
Other	14.8 %	1.2%

As of 31 December 2017 and 31 December 2016 the Company has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams	As of 31 December 2017				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Privately held companies	16,068	-	3,292	14,942	34,302
Individuals	172,429	100,981	97,192	300,721	671,323
Sole proprietors	-	4,475	-	11,574	16,049
Total	188,497	105,456	100,484	327,237	721,674

In thousand Armenian drams	As of 31 December 2016				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Privately held companies	781	-	2,144	76,841	79,766
Individuals	85,952	26,579	37,511	154,601	304,643
Sole proprietors	9,712	-	12,699	25,699	48,110
Total	96,445	26,579	52,354	257,141	432,519

31.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

31.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's income statement.

As of 31 December 2017 the Company has not had financial assets and liabilities with variable interest rate.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effects of the assumed changes in interest rates as of 31 December 2017.

In thousand Armenian drams		As of 31 December 2017				
		Sensitivity of equity				
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1	-	(325)	-	(10,176)	(157,179)
AMD	(1)		327	-	10,355	175,454

In thousand Armenian drams		As of 31 December 2016				
		Sensitivity of equity				
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
USD	1	(541)	(1,225)	-	-	(1,766)
USD	(1)	545	1,247	-	-	1,792

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	5	(7,239)	5	25,794
EUR	5	107	5	21

The Company's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	121,484	91,942	208	213,634
Investments available for sale				
- Held by the Company	370,317	-	-	370,317
- Securities under repurchase agreements	3,018,562	-	-	3,018,562
Loans and advances to customers	9,246,271	3,331,966	-	12,578,237
Other assets	29,209	-	-	29,209
	12,785,843	3,423,908	208	16,209,959
Liabilities				
Loans and borrowings	10,348,263	2,590,338	-	12,938,601
Debt securities issued	505,983	976,228	-	1,482,211
Other liabilities	105,966	-	-	105,966
Total	10,960,212	3,566,566	-	14,526,778
Net position as of 31 December 2017	1,825,631	(142,658)	208	1,683,181
Commitments and contingent liabilities as of 31 December 2017	651,798	36,997	-	688,795
Total financial assets	7,560,127	4,343,430	-	11,903,557
Total financial liabilities	6,401,123	3,827,122	-	10,228,245
Net position as of 31 December 2016	1,159,004	516,308	-	1,675,312
Commitments and contingent liabilities As of 31 December 2016	975,592	165,183	-	1,140,775

Freely convertible currencies represent mainly US dollar and Euro. Non-freely convertible amounts relate to Russian ruble.

31.3 Liquidity risk

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

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities.

In thousand Armenian drams	As of 31 December 2017				
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities					
Loans and advances	2,888,974	2,349,545	7,290,088	2,143,167	14,671,774
Debt securities issued	-	635,281	1,079,636	-	1,714,917
Other liabilities	67,884	38,082	-	-	105,966
Total undiscounted non-derivative financial liabilities	2,956,858	3,022,908	8,369,724	2,143,167	16,492,657
Commitments and contingent liabilities	688,795	-	-	-	688,795

In thousand Armenian drams	As of 31 December 2016				
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities					
Loans and advances	186,447	1,390,727	6,271,053	2,710,286	10,558,513
Debt securities issued		609,040	791,796	-	1,400,836
Payables on transferred but not yet unrecognised loans	7,457	45,994	16,407	-	69,858
Other liabilities	-	81,579	-	-	81,579
Total undiscounted non-derivative financial liabilities	193,904	2,127,340	7,079,256	2,710,286	12,110,786
Commitments and contingent liabilities	1,140,775	-	-	-	1,140,775

31.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board and Executive Management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

32 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams	As of 31 December 2017		
	Debt securities issued	Long-term liabilities	Total
As of 1 January 2017	1,180,994	8,895,814	10,076,808
Cash-flows			
Repayments	-	-	-
Amounts received	783,860	5,981,354	6,765,214
Amounts repaid	(486,864)	(1,962,876)	(2,449,740)
Non-cash			
Foreign exchange (gain)/loss	3,076	(2,473)	603
Interests accrued	1,145	26,782	27,927
As of 31 December 2017	1,482,211	12,938,601	14,420,812

33 Capital adequacy

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

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

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

The minimum ratio between total capital and risk weighted assets of credit organizations that attract (issue) borrowings from individuals through public allocation of bonds required by the Central Bank of Armenia is 12%.

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

As of 31 December 2017 and 2016 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Company of Armenia are provided below.

	Not audited	
In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Tier 1 capital	1,839,736	1,848,617
Tier 2 capital	42,424	26,428
Total regulatory capital	1,882,160	1,875,045
Risk-weighted assets	11,637,326	11,135,985
Capital adequacy ratio	16.2%	16.8%

RA Central Bank decided to determine the minimum size of total capital amounted to AMD 1,000,000 thousand for the credit organizations carrying out and issuing foreign exchange trading transactions.

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

34 Segment reporting

The Company's operations are quite integrated and form one business segment in accordance with the requirements of *IFRS 8 "Operational segments"*.

Most of the revenues from external clients relate to the RA residents. The Company does not have a single client from which receives 10% or more of its revenue.

The Company's non-current assets are mainly located in the RA.