

Central Bank of the Republic of Armenia

**International Financial Reporting Standards
Consolidated financial statements**

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

Contents

Independent auditor's report

Consolidated financial statements

Consolidated statement of comprehensive income	1
Consolidated statement of financial position	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows.....	4

Notes to the consolidated financial statements

1. Principal activities	5
2. Summary of significant accounting policies	5
3. New accounting pronouncements.....	15
4. Interest income	18
5. Interest expense	19
6. Net foreign exchange gain/(loss)	19
7. Net (loss)/gain on derivatives	19
8. Net gain on financial instruments at fair value through profit or loss	19
9. Other income.....	20
10. Cost of production of banknotes, coins and numismatics.....	20
11. Other expenses	20
12. Placements and investments with banks and other financial institutions.....	20
13. Financial instruments at fair value through profit or loss	23
14. Derivative financial instruments	23
15. Investment securities	24
16. Operations with the International Monetary Fund	25
17. Property and equipment.....	27
18. Intangible assets.....	27
19. Other assets in domestic currency.....	28
20. Deposits and accounts of financial and other institutions	28
21. Other borrowed funds	28
22. Other liabilities in domestic currency.....	29
23. Due to the Government of the Republic of Armenia.....	29
24. Debt securities issued	29
25. Management of capital.....	29
26. Commitments	30
27. Related party transactions.....	30
28. Cash and cash equivalents	33
29. Fair value of financial instruments.....	33
30. Risk management.....	37
31. Maturity analysis.....	46
32. Changes in liabilities arising from financing activities.....	47

Independent auditor's report

To the Board of the Central Bank of the Republic of Armenia

Opinion

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (together, the Group), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2017, the consolidated statement of financial position as at 31 December 2017, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2017 Annual report

Other information consists of the information included in the 2017 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Board of the Central Bank of Armenia for the consolidated financial statements

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

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

The Board of the Central Bank of Armenia is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of the Central Bank of Armenia 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.

Ernst & Young CJSC
Yerevan, Armenia

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

3 April 2018



Eric Hayrapetyan

Consolidated statement of comprehensive income**For the year ended 31 December 2017**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	2017	2016
Interest income	4	24,810,893	24,696,468
Interest expense	5	(14,000,482)	(10,229,329)
Net interest income		10,810,411	14,467,139
Fee and commission income		104,163	57,810
Fee and commission expense		(827,766)	(858,255)
Net foreign exchange gain/(loss)	6	5,522,258	(2,647,523)
Net (loss)/gain on derivatives	7	(419,692)	637,643
Net gain on financial instruments at fair value through profit or loss	8	5,282,609	4,321,214
Net gain on assets available-for-sale		291,035	–
Other income	9	3,852,261	3,576,016
Cost of production of banknotes, coins and numismatics	10	(570,486)	(466,448)
Other expenses	11	(20,473,094)	(21,004,558)
Profit/(loss) before tax		3,571,699	(1,916,962)
Income tax expense		(1,688,453)	(1,468,087)
Profit/(loss) for the year		1,883,246	(3,385,049)
Profit/(loss) is attributable to:			
Owners of the Bank		1,856,156	(3,400,332)
Non-controlling interest		27,090	15,283
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net unrealised gain from changes in fair value of available-for-sale assets		1,123,763	2,216,153
Net realized gain on investment securities available-for-sale reclassified to the statement of profit or loss		(291,035)	–
Other comprehensive income for the year		832,728	2,216,153
Total comprehensive income/(loss) for the year		2,715,974	(1,168,896)
Total comprehensive income/(loss) is attributable to:			
Owners of the Bank		2,676,378	(1,185,675)
Non-controlling interest		39,596	16,779

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 3 April 2018 and were signed by:




Arthur Javadyan
Chairman of the Central Bank
of the Republic of Armenia



Haykanush Hakobyan
Chief Accountant of the Central Bank
of the Republic of Armenia

Consolidated statement of financial position**As at 31 December 2017**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	31 December 2017	31 December 2016
Assets			
Foreign currency assets			
Cash		45,575,878	24,771,453
Placements with banks and other financial institutions	12	338,451,346	423,000,092
Financial instruments at fair value through profit or loss	13	707,060,655	591,641,527
Derivative financial assets	14	202,928	–
Available-for-sale assets	15	2,321,188	2,209,431
Held-to-maturity assets	15	32,089,943	31,431,281
Placements with the IMF	16	92,296,129	85,480,295
Other assets		325,614	1,612,496
Total foreign currency assets		1,218,323,681	1,160,146,575
Domestic currency assets			
Placements and investments with banks and other financial institutions	12	307,508,525	284,341,346
Financial instruments at fair value through profit or loss	13	–	2,352,333
Available-for-sale assets	15	92,039,044	101,788,443
Property and equipment	17	73,096,780	75,507,181
Intangible assets	18	3,037,110	1,582,082
Other assets	19	15,253,394	13,491,471
Total domestic currency assets		490,934,853	479,062,856
Total assets		1,709,258,534	1,639,209,431
Liabilities			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	179,414,268	258,230,092
Due to the Government of the Republic of Armenia	23	1,242,391	1,195,241
Derivative financial liabilities	14	13,184	79,950
Due to the IMF	16	291,752,144	279,123,932
Other borrowed funds	21	155,581,621	113,192,723
Other liabilities		498,396	367,852
Total foreign currency liabilities		628,502,004	652,189,790
Domestic currency liabilities			
Notes and coins in circulation		516,094,481	455,401,582
Deposits and accounts of financial and other institutions	20	385,491,051	329,459,340
Due to the Government of the Republic of Armenia	23	161,501,459	183,925,544
Debt securities issued	24	4,751,824	8,788,038
Other liabilities	22	4,648,825	4,067,367
Total domestic currency liabilities		1,072,487,640	981,641,871
Total liabilities		1,700,989,644	1,633,831,661
Equity			
Issued capital	25	100,000	100,000
General reserve		25,480,248	25,480,248
Promissory Note issued by the Government	25	73,810,843	73,810,843
Revaluation reserve for available-for-sale assets	25	1,903,879	1,083,657
Accumulated deficit		(93,984,117)	(95,840,273)
Net assets attributable to owners of the Bank		7,310,853	4,634,475
Non-controlling interest		958,037	743,295
Total equity		8,268,890	5,377,770
Total liabilities and equity		1,709,258,534	1,639,209,431

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2017**

<i>In thousands of Armenian Drams</i>	<i>Attributable to owners of the Bank</i>					<i>Total</i>	<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Issued capital</i>	<i>General reserve</i>	<i>Promissory note issued by the Government</i>	<i>Revaluation reserve for available-for-sale assets</i>	<i>Accumulated deficit</i>			
Balance at 1 January 2016	100,000	23,614,115	81,275,373	(1,131,000)	(90,573,808)	13,284,680	726,516	14,011,196
Distribution of profit	–	1,866,133	(7,464,530)	–	(1,866,133)	(7,464,530)	–	(7,464,530)
Loss for the year	–	–	–	–	(3,400,332)	(3,400,332)	15,283	(3,385,049)
Other comprehensive income	–	–	–	2,214,657	–	2,214,657	1,496	2,216,153
Total comprehensive loss for the year	–	–	–	2,214,657	(3,400,332)	(1,185,675)	16,779	(1,168,896)
Balance at 31 December 2016	100,000	25,480,248	73,810,843	1,083,657	(95,840,273)	4,634,475	743,295	5,377,770
Acquisition of a subsidiary	–	–	–	–	–	–	163,000	163,000
Decrease of share in a subsidiary	–	–	–	–	–	–	12,146	12,146
Profit for the year	–	–	–	–	1,856,156	1,856,156	27,090	1,883,246
Other comprehensive income	–	–	–	820,222	–	820,222	12,506	832,728
Total comprehensive income for the year	–	–	–	820,222	1,856,156	2,676,378	39,596	2,715,974
Balance at 31 December 2017	100,000	25,480,248	73,810,843	1,903,879	(93,984,117)	7,310,853	958,037	8,268,890

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2017**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	<i>2017</i>	<i>2016</i>
Cash flows from operating activities			
Profit/(loss) before tax		3,571,699	(1,916,962)
<i>Adjustments to reconcile profit/(loss) for the year to net cash flows</i>			
Depreciation and amortisation	11	4,699,999	4,943,278
Loss/(gain) from disposal of property and equipment		1,601	(21,523)
Change in interests receivable		149,287	(775,343)
Change in interests payable		634,626	374,575
Net (gain)/loss from foreign exchange translation	6	(5,100,923)	2,883,382
Net loss from re-measurement of financial instruments at fair value		1,230,115	1,092,210
Net gain on assets available-for-sale		(291,035)	–
Other expenses		478,742	–
Income tax paid		(1,544,292)	(1,592,996)
Cash flows from operating activities before changes in operating assets and liabilities		3,829,819	4,986,621
<i>Net (increase)/decrease in operating assets</i>			
Placements with banks and other financial institutions in foreign currency		(21,449,963)	(14,720,786)
Financial instruments at fair value through profit or loss and derivative financial instruments		(102,494,666)	(81,862,598)
Placements with the IMF		–	(6,565,535)
Placements and investments with banks and financial other institutions in domestic currency		(22,812,471)	32,553,231
Other assets		1,212,644	(1,912,755)
<i>Net increase/(decrease) in operating liabilities</i>			
Notes and coins in circulation		60,692,899	41,787,825
Deposits and accounts of financial and other institutions		(28,454,791)	76,193,210
Due to the Government of the Republic of Armenia		(21,872,821)	45,989,830
Debt securities issued		(4,137,300)	5,388,019
Other liabilities		569,427	1,151,076
Net cash flows (used in) / from operating activities		(134,917,223)	102,988,138
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(4,123,468)	(4,067,665)
Proceeds from sale of property and equipment		1,042,076	41,889
Proceeds from sale and redemption of available-for-sale assets		10,888,357	3,377,068
Purchase of held-to-maturity assets		(24,040,370)	(30,746,502)
Proceeds from redemption of held-to-maturity assets		26,295,240	49,747,753
Acquisition of a subsidiary		(200,000)	–
Net cash flows from investing activities		9,861,835	18,352,543
Cash flows from financing activities			
Loans received		52,568,044	38,898,587
Loans redeemed		(23,274,235)	(7,998,714)
Decrease of share in a subsidiary		12,146	–
Net cash flows from financing activities		29,305,955	30,899,873
Effect of exchange rate changes on cash and cash equivalents		14,499,222	(1,331,421)
Net (decrease)/increase in cash and cash equivalents		(81,250,211)	150,909,133
Cash and cash equivalents at the beginning of the year	28	417,512,735	266,603,602
Cash and cash equivalents at the end of the year	28	336,262,524	417,512,735
Supplementary information			
Interest received		24,960,180	23,921,125
Interest paid		(13,365,856)	(9,854,754)

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

1. Principal activities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2017 and for the year then ended for the Central Bank of the Republic of Armenia (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law on the Central Bank of the Republic of Armenia (the "Law") and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2017 was 771 (2016: 791).

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

In accordance with the Law the basic objective of the Bank is ensuring stability of prices in the Republic of Armenia. It is achieved through elaboration and implementation of monetary policy. In addition to its basic objective, the Bank is also responsible for:

- ▶ Ensuring the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia; and
- ▶ Creation and development of an effective payment and settlement system.

The Bank also:

- ▶ Issues the national currency of the Republic of Armenia and regulates its circulation;
- ▶ Organises and regulates anti money laundering and anti-terrorism financing activities;
- ▶ Is the financial agent and advisor of the Government of the Republic of Armenia (the "Government");
- ▶ Licenses commercial banks and, in cases envisaged by the legislation, other entities, supervises and regulates their activities;
- ▶ Is the lender of last resort to commercial banks; and
- ▶ Owns, uses and manages international reserves of the Republic of Armenia.

The Bank's largest subsidiaries are as follows:

<i>Name</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Controlled, %</i>		<i>Date of establishment</i>
			<i>2017</i>	<i>2016</i>	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	56.25	57.50	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/delivery of cash	100.00	100.00	April 1998
"Panarmenian Bank" OJSC	Republic of Armenia	Banking	–	100.00	December 2009
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100.00	100.00	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance	100.00	100.00	December 2013
"AR-US" CJSC	Republic of Armenia	infrastructure support	100.00	100.00	December 2013
		Payment and settlement services	100.00	–	December 2017
"MT" Transfer CJSC	Republic of Armenia	Payment and settlement services	55.09	–	December 2017

2. Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year then ended 31 December 2017 for the Bank and its subsidiaries.

2. Summary of significant accounting policies (continued)

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(c) Form of presentation of the financial statements

In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

(d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

(e) Use of estimates and judgments

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Assessment of impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Transactions with related parties

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Accounting for operations with the International Monetary Fund (the "IMF")

In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the Law of the Republic of Armenia *On Membership of the Republic of Armenia in the International Monetary Fund, International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes*, the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia.

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depositary function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss.

(f) Adoption of new or revised standards and Interpretations

The Group has adopted the following new IFRS standards and interpretations which are effective for annual periods beginning on or after 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 32.

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

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

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Group's consolidated financial statements.

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2017. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power to direct relevant activities of the investees that significantly affect their returns;
- ▶ Exposure, or rights, to variable returns from its involvement with the investees; and
- ▶ The ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements;
- ▶ The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

2. Summary of significant accounting policies (continued)

(g) Basis of consolidation (continued)

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(h) Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of comprehensive income.

As at 31 December 2017 and 31 December 2016, the exchange rates used for translating foreign currency balances were as follows:

	31 December 2017	31 December 2016
AMD / 1 US dollar	484.10	483.94
AMD / 1 euro	580.10	512.20
AMD / 1 SDR (Special Drawing Rights)	689.42	650.58

(i) Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

(j) Financial instruments – key measurement terms

The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, available-for-sale assets and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity assets, or available-for-sale assets, as appropriate. When financial assets 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. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in the cases described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category "Financial assets measured at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading, including interest income on trading debt securities are recognised in profit or loss as net gain/(loss) on financial instruments at fair value through profit and loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

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. Gains and losses resulting from these instruments are included in profit or loss as net gain/(loss) on financial instruments at fair value through profit or loss or derivatives or net foreign exchange gain/(loss), depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Held-to-maturity assets

Non-derivative assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included into this category. Held-to-maturity assets are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the assets are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets include placements with banks and other financial institutions, holdings with the IMF, loans and reverse repurchase agreements and investments classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale assets are measured at fair value with gains or losses being recognised in other comprehensive income until the assets are derecognised or until the assets are determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ Other financial assets held for trading may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified to other categories at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government and the IMF, other borrowed funds and debt securities issued.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Accounting for zero interest rate loans

The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

Derecognition of financial assets and liabilities

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

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group 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 Group 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 Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 profit or loss.

(k) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(l) Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo") are treated as secured financial transactions.

Securities sold under sale and repurchase agreements are retained in the consolidated 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. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell ("reverse repo agreements") are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

2. Summary of significant accounting policies (continued)

(m) Securities lending and borrowing

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain on financial instruments at fair value through profit or loss in profit or loss. The obligation to return them is recorded within financial liabilities at fair value through profit or loss.

(n) Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognised in profit or loss as incurred.

(o) Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of comprehensive income for the current year.

(p) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	2017	2016
Land and buildings		
Buildings	30-80 years	30-80 years
Building technical systems	3-20 years	3-20 years
Networks, computer and other equipment	2-15 years	2-15 years
Vehicles	5 years	5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

(q) Non-current assets classified as held for sale

Non-current assets are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

2. Summary of significant accounting policies (continued)

(r) Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Computer software maintenance costs are recognised in profit or loss as incurred.

(s) Operating leases – Group 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 into other operating expenses.

(t) Impairment

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation 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.

Placements with banks and other financial institutions

For amounts due from financial institutions carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. The interest income is accrued at the initial effective interest rate of asset. Placements with banks and other financial institutions together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in profit or loss as income.

The present value of the estimated future cash flows is determined by their discounting at the financial asset's original effective interest rate. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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 foreclosure is probable.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Summary of significant accounting policies (continued)

(t) Impairment (continued)

Held-to-maturity assets

For held-to-maturity assets the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are recognised in profit or loss as income.

Available-for-sale assets

For available-for-sale assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition costs and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

All impairment losses are recognised in consolidated statement of comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

(u) Provisions

Provisions are recognised when the Group 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.

(v) Taxation

The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

2. Summary of significant accounting policies (continued)

(w) Issued capital

Issued capital represents the authorised capital of the Bank, which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as Promissory Note issued by the Government in the Equity of the Group.

(x) Profit allocation

The profit of the Group determined based on its consolidated financial statements shall be allocated as follows:

- a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;
- b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

The balance of the profit of the Group remaining after hereinbefore deductions shall be paid to the state budget.

The calculation of the profit of the Group to be paid to the state budget shall not include positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous.

In 2016 the Group changed its accounting policy for presentation of profit allocation in order to achieve more relevant presentation. The Group presents appropriations to redeem the promissory note which have been previously issued by the Government to the Bank by debiting "Promissory Note issued by the Government" account (previously – accumulated deficit account).

(y) Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(z) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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 recognised using the original effective interest rate applied to the new carrying amount.

(aa) Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period.

3. New accounting pronouncements

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

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant for the Group's consolidated financial statements.

3. New accounting pronouncements (continued)

IFRS 9 Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)

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

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

(a) Classification and measurement

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

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

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

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

The Group expects to continue measuring at fair value all financial assets currently held at fair value. Equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income will continue to be measured at FVOCI.

Trading debt and equity securities will continue to be classified as FVPL. Debt securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Group expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. HTM debt securities are expected to be classified as trading securities and will be measured at fair value through profit or loss as the Group expects to change its investment policy and to perform active management of securities previously included in HTM portfolio. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) Impairment

IFRS 9 requires the Group to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2018)

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

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

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

3. New accounting pronouncements (continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group does not expect a material effect from application of these amendments.

IFRS 16 Leases

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

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

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

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

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

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

These improvements include:

IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- ▶ An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- ▶ If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. Group does not expect a material effect from application of these amendments.

3. New accounting pronouncements (continued)

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation

These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:

- ▶ A party to a joint operation obtains control over the joint operation (IFRS 3);
- ▶ A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Group does not expect any effect on its consolidated financial statements.

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with the amendments, the Group does not expect any effect on its consolidated financial statements.

4. Interest income

In thousands of Armenian Drams

	2017	2016
Interest income from foreign currency assets		
Nostro accounts	1,417,593	461,374
Term deposits	574,152	264,119
Assets held-to-maturity	136,788	294,654
Placements with the IMF	12,775	2,394
Other	211,466	10,843
Total interest income from foreign currency assets	2,352,774	1,033,384
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	20,059,693	21,314,286
Available-for-sale assets	2,398,426	2,348,798
Total interest income from domestic currency assets	22,458,119	23,663,084
Total interest income	24,810,893	24,696,468

5. Interest expense

<i>In thousands of Armenian Drams</i>	2017	2016
Interest expense on foreign currency liabilities		
Other borrowed funds	2,960,515	2,074,742
Due to the IMF	2,200,430	1,270,377
Total interest expense on foreign currency liabilities	5,160,945	3,345,119
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	6,397,728	5,431,734
Deposits and accounts of financial and other institutions	1,574,393	846,537
Debt securities issued	759,625	511,061
Other	107,791	94,878
Total interest expense on domestic currency liabilities	8,839,537	6,884,210
Total interest expense	14,000,482	10,229,329

6. Net foreign exchange gain/(loss)

<i>In thousands of Armenian Drams</i>	2017	2016
Net gain/(loss) from foreign exchange translation	5,100,923	(2,883,382)
Net gain on spot transactions	421,335	235,859
Total net foreign exchange gain/(loss)	5,522,258	(2,647,523)

Included in the net gain/(loss) from revaluation of monetary assets and liabilities is a foreign exchange translation gain of AMD 12,373,119 thousand on financial instruments at fair value through profit or loss (2016: loss in the amount of AMD 1,874,640 thousand).

7. Net (loss)/gain on derivatives

<i>In thousands of Armenian Drams</i>	2017	2016
Net (loss)/gain on forward contract with the Government (Note 27)	(473,190)	547,349
Net gain on futures under own management	53,498	90,294
Total net (loss)/gain on derivatives	(419,692)	637,643

In accordance with the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law *On the State Budget of the Republic of Armenia*. Gain or loss of the Bank as a result of such foreign currency exchange operations is accounted for as result on derivatives.

8. Net gain on financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	2017	2016
Net gain on foreign securities under own management (excluding foreign exchange translation*)	5,941,381	3,684,946
Net (loss)/gain on assets under trust management (excluding foreign exchange translation*)	(482,757)	522,643
Net gain on the Government securities	—	292,002
Net gain on money market instruments under own management (excluding foreign exchange translation*)	3,547	—
Trust management fees (excluding foreign exchange translation*)	(179,562)	(178,377)
Total net gain on financial instruments at fair value through profit or loss	5,282,609	4,321,214

* The foreign exchange translation of assets is included in "Net foreign exchange gain/(loss)" (Refer to Note 6).

9. Other income

<i>In thousands of Armenian Drams</i>	2017	2016
Financial agency fee	599,952	898,319
Numismatic coins	599,790	495,206
Other	2,652,519	2,182,491
Total other income	3,852,261	3,576,016

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2017, the amount of AMD 2,006,683 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2016: AMD 1,876,354 thousand).

10. Cost of production of banknotes, coins and numismatics

<i>In thousands of Armenian Drams</i>	2017	2016
Production of numismatic coins sold during the year	567,773	466,148
Production of banknotes and coins	2,713	300
Total cost of production of banknotes, coins and numismatics	570,486	466,448

11. Other expenses

<i>In thousands of Armenian Drams</i>	2017	2016
Employee compensation, staff training and related payments	8,406,039	8,743,184
Depreciation and amortisation	4,699,999	4,943,278
Repairs and maintenance	1,927,505	1,862,214
Expenses on development and maintenance of payment system	617,656	482,651
Security and insurance expenses	436,928	443,721
Education, research and development of new projects	364,362	1,315,819
Expenses for Basel requirements implementation	266,969	321,570
Professional services	226,870	353,809
Other	3,526,766	2,538,312
Total other expenses	20,473,094	21,004,558

During the year ended 31 December 2017 and 31 December 2016, the expenses included into "Other" line represent subscription fees, representation expenses, printing expenses, communication expenses, utilities, rent expenses and stationary.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2017 and 31 December 2016 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements and investments with banks and other financial institutions**Placements with banks and other financial institutions in foreign currency**

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	287,195,009	391,056,963
Term deposits	33,603,980	29,028,319
Repurchase agreements	14,533,961	—
Cash included in assets under trust management	3,118,396	2,914,810
Total placements with banks and other financial institutions in foreign currency	338,451,346	423,000,092

12. Placements and investments with banks and other financial institutions (continued)

Concentration of placements with banks and other financial institutions in foreign currency

As at 31 December 2017 the Group had placements in one bank with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2017 amounted to AMD 141,697,750 thousand (31 December 2016: placements with one bank amounted to AMD 265,089,384 thousand).

The term deposits have up to two months remaining maturity with the interest rate from 0.57% to 1.80% (31 December 2016: 0.28% to 1.02%).

As at 31 December 2017 AMD 3,118,396 thousand balance of cash included in assets under trust management (31 December 2016: AMD 2,914,810 thousand) represent balance maintained by the Bank for settlements under operations with foreign securities within the framework of Agreement on investment management. As at 31 December 2017 and 31 December 2016 the amount of margin reserve for settlements under interest rate futures was included into the line "Cash included in assets under trust management".

As at 31 December 2017 AMD 1,452,300 thousand of term deposits denominated in foreign currency (31 December 2016: AMD 1,451,820 thousand of term deposits) are pledged to secure bonds issued by the Group (refer to Note 24).

Placements and investments with banks and other financial institutions in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Placements and investments with banks and other financial institutions in domestic currency		
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	122,810,147	105,894,951
Mortgage refinancing	70,673,468	61,258,612
Deposits and current accounts placed in commercial banks	49,852,349	50,364,096
Repurchase agreements and other overnight facilities	36,918,863	45,707,770
Investments classified as loans and receivables	23,925,036	13,791,080
Other loans	3,328,662	7,324,837
Total placements and investments with banks and other financial institutions in domestic currency	307,508,525	284,341,346

Concentration of placements and investments with banks and other financial institutions in domestic currency

As at 31 December 2017 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2016: two banks).

Loans issued to commercial banks under reverse repurchase agreements represent short-term loans which are issued to commercial banks on a regular basis via the tender process.

The Group accepted securities on reverse repurchase agreements as collateral for commercial loans, which the Group is permitted to sell or repledge. As at 31 December 2017 amounts receivable under reverse repurchase agreements are with 1 resident bank (31 December 2016: 4 resident banks and 3 other financial institutions) and are collateralised by the following securities:

<i>In thousands of Armenian Drams</i>	Fair value as at 31 December 2017	Fair value as at 31 December 2016
Treasury bonds of the Government	38,342,781	45,178,235
Eurobonds issued by the Government	–	2,078,547
Corporate bonds	–	749,595
Total	38,342,781	48,006,377

As at 31 December 2016 AMD 289,360 thousand out of AMD 749,595 thousand corporate bonds represents debt securities held by a Group's subsidiary.

12. Placements and investments with banks and other financial institutions (continued)

Concentration of placements and investments with banks and other financial institutions in domestic currency (continued)

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks and other financial institutions under the following programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- ▶ *SME Support.* The objective of the SME support Programs of the World Bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2014 a new credit line was received within the framework of the ADB "Women Entrepreneurship Support Sector Development" Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs via the financial system of the Republic of Armenia. During 2015 a new loan was received from EIB, the loan will be used in order to make lending to SMEs in agro-processing, rural and tourism sectors through commercial banks and universal credit organisations. During 2017 one more loan was received from EIB within the framework of the "Armenia APEX II Loan for SMEs and MIDCAPs" Program. The conditions of this loan are mostly the same as that of the first phase. The main difference is climate change component inclusion that requires some actions from the side of sub-borrowers to improve the impact on the environment. During 2016 a new loan was received under "Support for the financing of the Energy Efficiency in MSME sector" Program. The objective of the Program is to introduce and expand the offer of energy efficiency loans in Armenian financial institutions and to cover at the same time the demand for energy efficiency loans from micro, small and medium sized enterprises (MSME). The Program aims at contributing to reduce the energy demand of Armenian MSME and the volume of CO₂-emissions as well as to enhance the competitiveness of the enterprises.
- ▶ *Development of the Renewable Energies.* The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- ▶ *Development of sustainable housing market.* The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

In accordance with the conditions of the programs the Group appoints eligible Armenian banks and financial institutions using technical and finance criteria, and places funds with appointed banks and financial institutions according to contracts signed with these counterparties. The banks and financial institutions specify final borrowers and assume risks for the loans extended.

As at 31 December 2017 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 15 domestic banks (31 December 2016: 16 domestic banks) and 10 financial institutions (31 December 2016: 9 financial institutions).

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2016: 10 years).

As at 31 December 2017 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 70,575,287 thousand (31 December 2016: AMD 60,995,474 thousand).

As at 31 December 2017 mortgage refinancing loans in the amount of AMD 1,097,326 thousand and term deposits denominated in domestic currency in the amount of AMD 30,000 thousand (31 December 2016: mortgage refinancing loans in amount of AMD 7,024,213 thousand) are pledged to secure the Group's borrowings from the Government (refer to Note 23) and bonds issued (refer to Note 24).

Current accounts and deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

As at 31 December 2017 the management of the Group has classified investments in the amount of AMD 23,925,036 thousand as loans and receivables (31 December 2016: AMD 13,791,080 thousand). Such decision was made due to the absence of liquid market for these investments and taking into account that the Group has ability and intention to hold them for the foreseeable future.

Other loans are secured by real estate in the amount of AMD 2,325,983 thousand (31 December 2016: AMD 5,371,933 thousand), movable property and other assets in the amount of AMD 134,844 thousand (31 December 2016: AMD 1,279,430 thousand).

13. Financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Assets		
Debt and other fixed-income instruments in foreign currency – quoted		
Foreign bonds under own management	607,324,341	515,867,650
Foreign bonds under trust management	85,212,190	75,773,877
Foreign money market instruments under own management	14,524,124	–
Total financial instruments at fair value through profit or loss in foreign currency – Quoted	707,060,655	591,641,527
Debt and other fixed-income instruments in domestic currency		
Securities of the Government of the Republic of Armenia	–	2,352,333
Total financial instruments at fair value through profit or loss in domestic currency	–	2,352,333
Total financial instruments at fair value through profit or loss	707,060,655	593,993,860

As at 31 December 2017 and 31 December 2016 foreign securities at fair value under own management include:

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Government bonds	331,702,996	250,595,989
State agency bonds	59,689,520	117,820,190
Other securities	215,931,825	147,451,471
Total	607,324,341	515,867,650

Debt securities at fair value through profit or loss under own management represent securities issued by governments of European countries and US treasury bills, securities issued by state agencies, foreign banks and other financial institutions.

As at 31 December 2017 and 31 December 2016 the foreign bonds under trust management include:

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Government bonds	15,136,907	26,833,437
State agency bonds	22,369,775	21,829,108
Other securities	47,705,508	27,111,332
Total	85,212,190	75,773,877

Securities under trust management represent financial instruments under discretionary asset management by the international financial institution in accordance with Investment Management Agreement.

As at 31 December 2016 government securities denominated in domestic currency are represented by coupon and discount treasury bills of the Government.

14. Derivative financial instruments

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Derivative financial assets		
Foreign currency contracts under trust management	202,928	–
Total derivative financial assets	202,928	–
Derivative financial liabilities		
Forward contract with the Government	13,184	28,177
Foreign currency contracts under trust management	–	51,773
Total derivative financial liabilities	13,184	79,950

14. Derivative financial instruments (continued)

As at 31 December 2017 the Group had 428 short futures contracts with the nominal value of EUR 57,577 thousand or AMD 33,400,648 thousand and at the year-end official exchange rate of EUR to Armenian Dram, which were under discretionary asset management by the international financial institution for the purposes of regulating the interest rate risk. These operations were performed as a part of Investment Management Agreement (31 December 2016: 63 short futures contracts with the nominal value of EUR 9,354 thousand or AMD 4,791,155 thousand).

<i>In thousands of Armenian Drams</i>	<i>Nominal value</i>		<i>Fair value</i>			
			<i>2017</i>		<i>2016</i>	
	<i>2017</i>	<i>2016</i>	<i>Asset</i>	<i>Liability</i>	<i>Asset</i>	<i>Liability</i>
Interest rate futures	33,400,648	4,791,155	202,928	–	–	51,773
Total foreign exchange futures contracts under trust management	33,400,648	4,791,155	202,928	–	–	51,773
Currency forward contract with the Government	2,871,048	1,626,682	–	13,184	–	28,177
Total	36,271,696	6,417,837	202,928	13,184	–	79,950

15. Investment securities

<i>In thousands of Armenian Drams</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
Available-for-sale investments in foreign currency – unquoted		
Equity investments		
Foreign securities	2,317,977	2,207,785
Equity investments at cost		
SWIFT	3,211	1,646
Total available-for-sale investments in foreign currency – unquoted	2,321,188	2,209,431
Available-for-sale investments in domestic currency		
Debt instruments		
Securities of the Government of the Republic of Armenia	17,521,378	21,204,072
Promissory note of the Government (Note 25)	73,810,843	73,810,843
Corporate bonds	–	6,111,734
Total debt instruments	91,332,221	101,126,649
Equity investments at cost		
Other investments	706,823	661,794
Total equity investments	706,823	661,794
Total available-for-sale investments in domestic currency	92,039,044	101,788,443
Total available-for-sale investments	94,360,232	103,997,874
Held-to-maturity investments in foreign currency		
Foreign bonds	32,089,943	31,431,281
Total held-to-maturity investments in foreign currency	32,089,943	31,431,281

Foreign securities classified as available-for-sale as at 31 December 2017 and as at 31 December 2016 represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

As at 31 December 2017 debt securities denominated in domestic currency and classified as available-for-sale represent coupon securities issued by the Government of the Republic of Armenia.

Available-for-sale debt investment securities are recorded at fair value determined using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

As at 31 December 2017 a non-interest bearing on-demand promissory note issued by the Government is equal to AMD 73,810,843 thousand (2016: 73,810,843 AMD thousand). The management believes that the carrying amount of the promissory note approximates its fair value.

Foreign securities classified as held to maturity include coupon and discount securities issued by state agencies, foreign banks and other financial institutions of European countries.

15. Investment securities (continued)

During the year ended 31 December 2016 the Group reclassified certain financial assets maturing in 2016 out of held-to-maturity category to available-for-sale category due to restructure of the Bank's assets denominated in foreign currency. The need for restructuring arose as a result of changes in the structure of SDR currency basket by the IMF. The reclassification took place close to maturity date of the assets. The total carrying value of these assets as of the date of reclassification was AMD 8,982,014 thousand, fair value – AMD 9,029,947 thousand. During the year ended 31 December 2017 no any reclassifications out of held-to-maturity category were made.

16. Operations with the International Monetary Fund

Assets due from the IMF

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Placements with the IMF		
Membership quota in the IMF (subscription)	88,797,296	83,794,704
SDR holdings in the IMF	3,491,637	1,684,319
Accrued interest	7,196	1,272
Total placements with the IMF	92,296,129	85,480,295

The Republic of Armenia is a member of the International Monetary Fund. The Bank holds the quota for the Republic of Armenia membership in the IMF.

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The 75% of the quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Bank. On 25 February 2016 the quota for Armenia increased from SDR 92,000 thousand to SDR 128,800 thousand according to the decision by IMF Board of Governors. The part of payment of quota (AMD 18,622,225 thousand) paid in form of promissory note did not require the use of cash and cash equivalents and was excluded from the consolidated statement of cash flows. As at 31 December 2017 the quota of the Republic of Armenia in the IMF amounted to SDR 128,800 thousand, or AMD 88,797,296 thousand at the year-end official exchange rate of Armenian Dram to SDR (2016: SDR 128,800 thousand or AMD 83,794,704 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

Movements in SDR holdings account during the years ended 31 December 2017 and 31 December 2016 were as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Balance of SDR holdings as at 1 January	1,684,319	1,383,162
Receipt of funds from the IMF under Extended Fund Facility program:		
In favour of the Bank	3,313,750	20,816,691
Purchase of SDRs	24,993,815	4,459,268
Transfer of funds under EFF Program to Nostro accounts of the Group in other banks	–	(12,783,356)
Repayment of loans to the IMF:		
On behalf of the Bank		
PRGT	(1,287,858)	(2,131,827)
EFF	(13,440,048)	(8,653,383)
On behalf of the Government		
PRGT	(9,839,699)	(6,175,021)
Payment of loan related commission	(59,550)	(136,129)
Other income	7,606	39,014
Other fees	(1,730)	(2,090)
Payment of interest for use of the IMF resources:		
On behalf of the Bank	(1,745,407)	(1,163,336)
Payment of interest for use of funds received under SDR allocation	(261,425)	(33,345)
Income on SDR holdings	7,010	1,444
Reserve tranche purchase	–	6,199,880
Translation differences	120,854	(136,653)
Balance of SDR holdings as at 31 December	3,491,637	1,684,319

16. Operations with the International Monetary Fund (continued)

Assets due from the IMF (continued)

During 2017 funds totalling SDR 15,690 thousand were received under Extended Fund Facility (the “EFF”) program. The SDR 5,000 thousand was received into SDR holdings account. The remaining part was denominated in USD and received by the Bank on one of its corresponding accounts denominated in USD. All these funds were obtained by the Bank on behalf of itself.

During 2016 funds totalling SDR 31,300 thousand were received under Extended Fund Facility (the “EFF”) program, part of which was converted into USD and transferred on one of the Bank’s corresponding accounts in other banks denominated in USD. All these funds were obtained by the Bank on behalf of itself.

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions had place.

Liabilities due to the IMF

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Securities account	159,285,304	159,285,304
Adjustment account for AMD liabilities to the IMF	7,743,521	(8,201,736)
Account 1	41,430,845	48,356,946
Account 2	2,584	2,637
SDR allocation	60,661,141	57,243,662
ECF:	22,195,187	22,187,380
<i>Carrying value</i>	<i>21,116,173</i>	<i>21,161,000</i>
<i>Deferred income</i>	<i>1,079,014</i>	<i>1,026,380</i>
Interest accrued	433,562	249,739
Total liabilities due to the IMF	291,752,144	279,123,932

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2017 part of the Bank’s liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 159,285,304 thousand (31 December 2016: AMD 159,285,304 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank’s liability to the IMF as at 31 December 2017 represents liabilities as per Extended Credit Facility and Extended Fund Facility. Funds received under Extended Fund Facility are recorded on Account 1.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the “PRGT”) as part of a broader reform to make the IMF’s financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2017 the ECF bears no interest (2016: 0%). The loans outstanding as at 31 December 2017 mature in May 2018 – June 2023 (31 December 2016: May 2017 – June 2023).

The Extended Fund Facility (the “EFF”) is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2017 mature in June 2018 – June 2027 (31 December 2016: June 2017 – December 2026).

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations to the member countries. The SDR allocation interest rate is floating and published by the IMF on a weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

17. Property and equipment

<i>In thousands of Armenian Drams</i>	<i>Land and buildings</i>	<i>Networks, computer and other equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
Cost					
Balance as at 1 January 2016	71,835,390	23,377,557	669,654	285,411	96,168,012
Additions	80,585	409,125	56,018	2,661,468	3,207,196
Disposals	–	(460,633)	(51,356)	–	(511,989)
Transfer	972,155	(972,155)	–	–	–
Balance as at 31 December 2016	72,888,130	22,353,894	674,316	2,946,879	98,863,219
Additions	71,863	877,660	27,000	1,345,567	2,322,090
Disposals	(342,091)	(733,757)	(52,065)	–	(1,127,913)
Transfer	2,150,934	259,397	–	(2,410,331)	–
Balance as at 31 December 2017	74,768,836	22,757,194	649,251	1,882,115	100,057,396
Depreciation					
Balance as at 1 January 2016	8,468,245	10,403,201	413,992	–	19,285,438
Charge for the period	2,713,844	1,777,485	70,893	–	4,562,222
Disposals	–	(443,893)	(47,729)	–	(491,622)
Transfer	179,117	(179,117)	–	–	–
Balance as at 31 December 2016	11,361,206	11,557,676	437,156	–	23,356,038
Charge for the period	2,702,150	1,540,578	72,714	–	4,315,442
Disposals	(183,710)	(479,037)	(48,117)	–	(710,864)
Balance as at 31 December 2017	13,879,646	12,619,217	461,753	–	26,960,616
Carrying amount					
At 31 December 2017	60,889,190	10,137,977	187,498	1,882,115	73,096,780
At 31 December 2016	61,526,924	10,796,218	237,160	2,946,879	75,507,181

Construction in progress consists mainly of construction of premises. Upon completion, assets are transferred to premises and equipment respectively.

18. Intangible assets

<i>In thousands of Armenian Drams</i>	<i>Computer software</i>	<i>Contracts in progress</i>	<i>Total</i>
Cost			
Balance as at 1 January 2016	3,091,418	–	3,091,418
Additions	223,754	–	223,754
Disposals	–	–	–
Balance as at 31 December 2016	3,315,172	–	3,315,172
Additions	1,474,760	991,453	2,466,213
Disposals	(654,317)	–	(654,317)
Balance as at 31 December 2017	4,135,615	991,453	5,127,068
Amortisation			
Balance as at 1 January 2016	1,352,034	–	1,352,034
Charge for the period	381,056	–	381,056
Disposals	–	–	–
Balance as at 31 December 2016	1,733,090	–	1,733,090
Charge for the period	384,557	–	384,557
Disposals	(27,689)	–	(27,689)
Balance as at 31 December 2017	2,089,958	–	2,089,958
Carrying amount			
At 31 December 2017	2,045,657	991,453	3,037,110
At 31 December 2016	1,582,082	–	1,582,082

19. Other assets in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Numismatic coins	7,970,378	7,934,344
Prepayments	5,012,084	3,030,893
Other	2,270,932	2,526,234
Total other assets	15,253,394	13,491,471

20. Deposits and accounts of financial and other institutions

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	177,022,529	256,510,976
Current accounts and term deposit of Deposit Guarantee Fund	1,862,121	1,703,577
Current accounts of other legal entities	529,618	15,539
Total foreign currency liabilities	179,414,268	258,230,092
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	381,265,657	329,168,722
Current accounts and term deposit of Insurance Fund for servicemen	1,196,390	–
Current accounts and term deposit of Deposit Guarantee Fund	2,151	15,688
Current accounts of other legal entities	1,024,175	274,930
Other deposits	2,002,678	–
Total domestic currency liabilities	385,491,051	329,459,340
Total deposits and accounts of financial and other institutions	564,905,319	587,689,432

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2017 two counterparty banks had balances individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions amounting to AMD 144,659,126 thousand (31 December 2016: two banks with total balance of 201,342,818 AMD thousand).

21. Other borrowed funds

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Due to the KfW	62,758,218	48,539,612
Due to the EIB	56,539,446	30,332,787
Due to the World Bank	21,968,849	22,642,785
Due to the ADB	8,381,125	5,004,020
Other	5,933,983	6,673,519
Total other borrowed funds	155,581,621	113,192,723

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2018 to 2048 (31 December 2016: from 2017 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2018 to 2035 (31 December 2016: from 2017 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions and matures during the period from 2018 to 2044 (31 December 2016: from 2017 to 2044).

The loan due to the EIB is provided by the European Investment Bank for financing agriculture and tourism sectors through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2018 to 2030 (31 December 2016: from 2018 to 2030).

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2018 till 2025 (31 December 2016: from 2017 to 2025). As at 31 December 2017 the balance outstanding under this loan facility is AMD 5,933,983 thousand (31 December 2016: AMD 6,673,519 thousand).

22. Other liabilities in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Other liabilities in domestic currency		
Payables	2,072,744	2,062,488
Demand deposits of employees	932,825	829,066
Other liabilities	1,643,256	1,175,813
Total other liabilities in domestic currency	4,648,825	4,067,367

23. Due to the Government of the Republic of Armenia

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Foreign currency liabilities		
Current accounts of the Government	1,242,391	1,195,241
Total foreign currency liabilities	1,242,391	1,195,241
Domestic currency liabilities		
Term deposits	115,325,158	135,211,272
Current accounts of the Government	45,210,833	47,104,499
Loans from the Government	965,468	1,609,773
Total domestic currency liabilities	161,501,459	183,925,544
Total due to the Government of the Republic of Armenia	162,743,850	185,120,785

Term deposits of the Government have maturity of less than one year and interest rate is ranging from 5.25% to 5.63% (31 December 2016: from 5.98% to 7.25%).

Loans from the Government outstanding as at 31 December 2017 and 31 December 2016 represent loans obtained by one of the Group's subsidiaries from the Government under the Mortgage Loan Market Refinancing Project based on the general agreement signed on 13 June 2009. Loan's nominal interest rate is 7% per annum with maturity date till June 2019.

As at 31 December 2017 mortgage refinancing loans to banks and financial institutions with a gross value of AMD 1,097,326 thousand (31 December 2016: AMD 1,466,583 thousand) serve as collateral for loans from the Government.

24. Debt securities issued

At 31 December 2017 the subsidiary company of the Group had in issue five-year coupon bonds at AMD 1,200,000 thousand par value (maturing up to June 2019), three-year coupon bonds at AMD 3,510,600 thousand par value (maturing up to November 2019) (31 December 2016: one-year discount bonds at AMD 2,137,300 thousand par value, three-year coupon bonds at AMD 3,510,600 thousand par value, three-year coupon bonds at AMD 2,000,000 thousand par value and five-year coupon bonds at AMD 1,200,000 thousand par value).

The average annual yield on these bonds is from 10.4% to 11.8% (31 December 2016: from 9.8% to 11.82%). The carrying value of the issued bonds as at 31 December 2017 is AMD 4,751,824 thousand (31 December 2016: AMD 8,788,038 thousand). As at 31 December 2017 term deposits denominated in domestic currency in the amount of AMD 30,000 thousand (31 December 2016: mortgage refinancing loans to banks and financial institutions in the amount of AMD 5,557,630 thousand) and term deposits denominated in foreign currency in the amount of AMD 1,452,300 thousand (31 December 2016: AMD 1,451,820 thousand denominated in foreign currency) serve as collateral for debt securities issued.

25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

No external capital requirements exist for the Bank as the central bank, except for the size of the authorised (statutory) capital stipulated by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

25. Management of capital (continued)

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential losses) arising as a result of banking operations. Promissory Note issued by the Government represents a contribution made by the Government by the way of issuing a non-interest bearing on demand promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Group exceed the aggregate amount of its reserves.

As at 31 December 2017 a non-interest bearing on-demand promissory note issued by the Government is equal to AMD 73,810,843 thousand. During the year ended 31 December 2017 no any allocation of profit was performed.

In December 2016 the Group allocated 80% of profit for the year-ended 31 December 2015 to recover the amounts as per promissory note which has been previously issued by the Government to the Bank. Remaining part of profit for the year ended 31 December 2015 was transferred to general reserve. The non-interest bearing promissory note was re-issued at the nominal amount of AMD 73,810,843 thousand (refer to Note 15). Profit allocation to recover the amounts as per promissory note and transfer of profit to general reserve did not require the use of cash and cash equivalents and were excluded from the statement of cash flows.

Revaluation reserve for available-for-sale assets in the amount of AMD 1,903,879 thousand (positive effect) as at 31 December 2017 (31 December 2016: AMD 1,083,657 thousand (positive effect) represents difference between the fair value of the Group's financial assets classified as available-for-sale as at the reporting date and their fair value at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2017 related to the construction of the Group's premises and development of software are AMD 321,238 thousand (31 December 2016: AMD 1,410,017 thousand).

Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Group.

Guarantees

As at 31 December 2017 the Group has guarantees in the amount of AMD 746,272 thousand (31 December 2016: AMD 746,025 thousand) issued from 1994 to 1995 on behalf of construction companies and related to earthquake zone construction. Guarantees represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk. During the period starting from the date of the issuance of the guarantees and till 31 December 2017 the Group has not made any payments and has not received any claims under these guarantees.

27. Related party transactions

Transactions with members of the key management

Amount of the key management remuneration included into "Employee compensation, staff training and related payments" line (refer to Note 11):

<i>In thousands of Armenian Drams</i>	2017	2016
Key management including the Board members	311,599	303,057
Total	311,599	303,057

27. Related party transactions (continued)

Transactions with members of the key management (continued)

Total amount of loans issued to the members of the key management outstanding as at 31 December 2017 is AMD 115,372 thousand (31 December 2016: AMD 117,833 thousand). Total amount of loans issued to and repaid by the members of the key management during the year ended 31 December 2017 is AMD 26,500 thousand and AMD 28,961 thousand respectively (2016: AMD 15,180 thousand and AMD 24,377 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2017 is AMD 206,139 thousand (31 December 2016: AMD 128,404 thousand). Total amount of deposits placed and deposits redeemed by the members of the key management during the year ended 31 December 2017 is AMD 100,262 thousand and AMD 22,527 thousand respectively (2016: AMD 82,047 thousand and AMD 25,279 thousand). In accordance with the Bank's internal regulations loans cannot be provided to the Bank's employees who have deposits with the Bank.

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the key management are as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Consolidated statement of comprehensive income		
Interest expense	(20,537)	(11,526)
Interest income	3,772	4,241

Transactions with the Government of the Republic of Armenia

The outstanding balances and average contractual interest rates with the Government are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2017		31 December 2016	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia at fair value through profit or loss (Note 13)	–	0.0%	2,352,333	10.8%
Securities of the Republic of Armenia classified as available-for-sale (Note 15)	17,521,378	10.9%	21,204,072	11.0%
	17,521,378		23,556,405	
Promissory note issued by the Government (Note 15)				
Balance at 1 January	73,810,843		81,275,373	
Decrease as a result of profit distribution	–		(7,464,530)	
Balance at 31 December	73,810,843		73,810,843	
Assets at 31 December	91,332,221		97,367,248	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	161,501,459	4.3%	183,925,544	5.2%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,242,391		1,195,241	
Liabilities at 31 December	162,743,850		185,120,785	

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Balance at 1 January	135,211,272	86,130,956
Additions	804,000,000	726,599,595
Interest charge	5,868,829	4,781,824
Redemption (including interest payment)	(829,754,943)	(682,301,103)
Balance at 31 December	115,325,158	135,211,272

27. Related party transactions (continued)

Transactions with the Government of the Republic of Armenia (continued)

The movement of the loans from the Government in domestic currency was as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Balance at 1 January	1,609,773	2,253,561
Interest charge	98,431	98,948
Redemption (including interest payments)	(742,736)	(742,736)
Balance at 31 December	965,468	1,609,773

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the Government are as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Consolidated statement of comprehensive income		
Interest income from Government securities	2,398,426	2,348,798
Interest expense	(6,397,728)	(5,431,734)
Net foreign exchange loss	(8,082)	(33,546)
Net (loss)/gain on derivatives	(473,190)	547,349

In accordance with the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law *On the State Budget of the Republic of Armenia*. Gain or loss of the Group as a result of such foreign currency exchange operations is accounted for as result on derivatives.

Transactions with the Deposit Guarantee Fund

The information in the tables below relates to the balances and results of transactions with the Deposit Guarantee Fund of Armenia, in the governing body of which the Bank has its representatives.

<i>In thousands of Armenian Drams</i>	31 December 2017		31 December 2016	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Due to the Deposit Guarantee Fund (domestic currency, Note 20)	2,151	0.0%	15,688	0.0%
Due to the Deposit Guarantee Fund (foreign currency, Note 20)	1,862,121	0.0%	1,703,577	0.0%
Total	1,864,272		1,719,265	

The movement of deposits and current accounts of the Deposit Guarantee Fund was as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Balance at 1 January	1,719,265	1,968,152
Additions	27,658,285	46,040,386
Interest charge	4,283	12,695
Redemption (including interest payment)	(27,517,561)	(46,301,968)
Balance at 31 December	1,864,272	1,719,265

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the Deposit Guarantee Fund are as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Consolidated statement of comprehensive income		
Interest expense	4,283	12,695

27. Related party transactions (continued)

Transactions with the Insurance Fund for Servicemen

The information in the tables below relates to the balances and results of transactions with the Insurance Fund for Servicemen, in the governing body of which the Bank has its representatives.

<i>In thousands of Armenian Drams</i>	31 December 2017		31 December 2016	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Due to the Insurance Fund for Servicemen (domestic currency, Note 20)	1,196,390	6.0%	–	0.0%
Total	1,196,390		–	

The movement of deposits and current accounts of the Insurance Fund for Servicemen was as follows:

<i>In thousands of Armenian Drams</i>	2017	2016
Balance at 1 January	–	–
Additions	1,195,800	–
Interest charge	83,373	–
Redemption (including interest payment)	(82,783)	–
Balance at 31 December	1,196,390	–

28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

<i>In thousands of Armenian Drams</i>	31 December 2017	31 December 2016
Cash	45,575,878	24,771,453
Nostro accounts (Note 12)	287,195,009	391,056,963
SDR holdings in the IMF (Note 16)	3,491,637	1,684,319
Total cash and cash equivalents	336,262,524	417,512,735

29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

<i>In thousands of Armenian Drams</i>	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
Government bonds	346,839,903	–	–	346,839,903	277,429,426	–	–	277,429,426
State agency bonds	82,059,295	–	–	82,059,295	139,649,298	–	–	139,649,298
Other securities	263,637,333	–	–	263,637,333	174,562,803	–	–	174,562,803
Money market instruments	14,524,124	–	–	14,524,124	–	–	–	–
Securities of the Government of the Republic of Armenia	–	–	–	–	–	2,352,333	–	2,352,333
Derivative financial assets	202,928	–	–	202,928	–	–	–	–
Investment securities available for sale								
Foreign securities	–	2,317,977	–	2,317,977	–	2,207,785	–	2,207,785
Securities of the Government of the Republic of Armenia	–	17,521,378	–	17,521,378	–	21,204,072	–	21,204,072
Promissory note issued by the Government	–	73,810,843	–	73,810,843	–	73,810,843	–	73,810,843
Corporate bonds	–	–	–	–	–	–	6,111,734	6,111,734
Total assets with recurring fair value measurements	707,263,583	93,650,198	–	800,913,781	591,641,527	99,575,033	6,111,734	697,328,294

<i>In thousands of Armenian Drams</i>	31 December 2017			31 December 2016		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Liabilities carried at fair value						
Financial liabilities						
Foreign currency contracts under trust management	–	–	–	51,773	–	51,773
Forward contract with the Government	–	13,184	13,184	–	28,177	28,177
Total liabilities with recurring fair value measurements	–	13,184	13,184	51,773	28,177	79,950

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
Investment securities available for sale			
Foreign securities	2,317,977	DCF	EUR risk-free rate
Securities of the Government of the Republic of Armenia	17,521,378	DCF	Government bonds yield curve
Promissory note issued by the Government	73,810,843	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	93,650,198		

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Securities of the Government of the Republic of Armenia	2,352,333	DCF	Government bonds yield curve
Investment securities available for sale			
Foreign securities	2,207,785	DCF	EUR risk-free rate
Securities of the Government of the Republic of Armenia	21,204,072	DCF	Government bonds yield curve
Promissory note issued by the Government	73,810,843	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	99,575,033		

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2017:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>	<i>Range of inputs (weighted average)</i>	<i>Reasonable change</i>	<i>Sensitivity of fair value measurement</i>
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities	13,184	DCF	1) AMD risk-free rate 2) USD risk-free rate 3) EUR risk-free rate 4) USD/AMD spot rate at the year-end 5) EUR/AMD spot rate at the year-end 6) Expected net amount of external debt – USD 7) Expected net amount of external debt – EUR	1) 5.63% 2) 3.36% 3) 1.43% 4) 484.10 5) 580.10 6) USD 5,811 thousand 7) EUR 100 thousand	1) +160/-350 b.p. 2) +70/-8 b.p. 3) + 25/-1 b.p. 4) n/a 5) n/a 6) ± 10% 7) ± 10%	1) (3,636)/8,167 2) 1,608/(184) 3) 12/(0.4) 4) n/a 5) n/a 6) (1,119)/1,119 7) (200)/200

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>	<i>Range of inputs (weighted average)</i>	<i>Reasonable change</i>	<i>Sensitivity of fair value measurement</i>
Assets carried at fair value						
Financial assets						
Investment securities available for sale						
Corporate bonds	6,111,734	DCF	1) Government bonds yield curve 2) Credit risk 3) Recovery rate	1) 9.75% 2) 3% 3) 50%	1) ± 370 b.p. 2) ± 200 b.p. 3) ± 20%	1) (45,398)/46,584 2) 25,030/(30,801) 3) 12,471/(18,545)
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities	28,177	DCF	1) AMD risk-free rate 2) USD risk-free rate 3) EUR risk-free rate 4) USD/AMD spot rate at the year-end 5) EUR/AMD spot rate at the year-end 6) Expected net amount of external debt – USD 7) Expected net amount of external debt – EUR	1) 6.84% 2) 5.77% 3) 4.63% 4) 483.94 5) 512.20 6) USD 3,252 thousand 7) EUR 100 thousand	1) ± 370 b.p. 2) + 60/-8 b.p. 3) + 12/-8 b.p. 4) n/a 5) n/a 6) ± 10% 7) ± 10%	1) (4,736)/4,918 2) 777/(104) 3) 5/(3) 4) n/a 5) n/a 6) (2,912)/2,912 7) 95/(95)

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The above tables disclose sensitivity to valuation inputs for derivative financial liabilities, if changing one or more of the unobservable inputs to reflect whether reasonably possible alternative assumptions would change fair value significantly. The sensitivity of fair value measurement disclosed in the above tables shows the direction that an increase or decrease in the respective input variables would have on the valuation result.

(b) Valuation processes for recurring level 3 fair value measurements

Level 3 valuations are periodically reviewed by the Accounting and Finance Departments of the Bank with making decision in respect of the appropriateness of the valuation technique which is used and analysis of the valuation model inputs. The level three instruments are valued at the net present value of estimated future cash flows using discount factors determined based on the characteristics of each individual financial instrument. When appropriate, the back testing is performed by the Group.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of financial assets not measured at fair value are as follows:

In thousands of Armenian Drams	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial assets								
Placements with banks and other financial institutions in foreign currency								
Nostro accounts	–	287,195,009	–	287,195,009	–	391,056,963	–	391,056,963
Term deposits	–	33,757,440	–	33,603,980	–	28,980,855	–	29,028,319
Cash included in assets under trust management	–	3,118,396	–	3,118,396	–	2,914,810	–	2,914,810
Repurchase agreements	–	14,533,961	–	14,533,961	–	–	–	–
Placements and investments with banks and other financial institutions in domestic currency								
Repurchase agreements and other overnight facilities	–	36,918,863	–	36,918,863	–	45,707,770	–	45,707,770
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	–	123,846,060	–	122,810,147	–	106,004,276	–	105,894,951
Mortgage refinancing	–	67,704,479	–	70,673,468	–	58,925,041	–	61,258,612
Deposits and current accounts placed in commercial banks	–	49,744,423	–	49,852,349	–	50,163,151	–	50,364,096
Investments classified as loans and receivables	–	–	20,102,861	23,925,036	–	–	9,881,947	13,791,080
Other loans	–	3,131,405	–	3,328,662	–	6,995,062	–	7,324,837
Investment securities held to maturity								
Government bonds	4,565,264	–	–	4,566,164	–	–	–	–
State agency bonds	10,663,568	–	–	10,749,711	11,654,715	–	–	11,655,737
Other securities	16,732,246	–	–	16,774,068	19,776,585	–	–	19,775,544
Total	31,961,078	619,950,036	20,102,861	678,049,814	31,431,300	690,747,928	9,881,947	738,772,719

The management believes that the carrying amount of deposits and accounts of financial and other institutions in foreign currency and in domestic currency, amounts due to the IMF and other borrowed funds approximates their fair value. The fair value hierarchy for these financial liabilities is Level 2.

29. Fair value of financial instruments (continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial liabilities not measured at fair value are as follows:

<i>In thousands of Armenian Drams</i>	31 December 2017		31 December 2016	
	Level 2	Carrying value	Level 2	Carrying value
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
Current accounts of the Government	1,242,391	1,242,391	1,195,241	1,195,241
Domestic currency liabilities				
Current accounts of the Government	45,210,833	45,210,833	47,104,499	47,104,499
Term deposits	115,310,788	115,325,158	135,165,735	135,211,272
Loans from the Government	965,468	965,468	1,609,773	1,609,773
Debt securities issued	5,018,023	4,751,824	8,980,647	8,788,038
Total	167,747,503	167,495,674	194,055,895	193,908,823

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Risk management

Introduction

Risk is inherent in the Group's activities but it 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 Group to be able to perform its main functions and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group 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 Group's strategic planning process.

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

The Board

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

Institutional framework

International reserves of the Republic of Armenia are the Bank's claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Group. The Bank manages the reserves in accordance with the principles envisaged by the article 52 of the Law, by investing the reserves within the Investment framework set by the Board.

The reserves can be used to finance external payments/trade imbalances, to regulate indirectly the impact of such imbalances on the exchange rate, and to ensure the international obligations of Armenia are duly performed. The Bank uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

Starting from 2007 the Bank has established a new reserve management framework in compliance with best international practices. The Bank adopted a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

30. Risk management (continued)

Administration and control

According to the Bank's structure, the Financial Department is responsible for Armenia's international reserves management. The Foreign Markets Operations unit of the Financial Department is in charge of operations related to day-to-day management of reserves. The International Risk Management unit is responsible for risks assessment, development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Issues related to reserves management are discussed on a monthly basis by the Investment Committee of the Bank, which includes the heads of all structural units involved in the entire process of reserves management, as well as the Bank's Chairman and the Deputy Chairman. Formerly, the Committee was only a consultative body but, after the introduction of the three level system for reserves management, it has been granted executive power. The Financial Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and the National Assembly, and makes that information publicly available.

Asset allocation and risk management

According to the principles set forth in article 52 of the Law, Armenia's international reserves are managed based on the principle of profit maximisation while ensuring proper liquidity and security of reserves. For this purpose, the Financial Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Group evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

To monitor the credit risk the Group uses an in-house developed model, which allows assessing the issuer default probability based on stock prices and balance sheet data. It belongs to the class of structural models, providing an economically meaningful explanation of default based on the asset-liability structure and financial leverage. The model is based on the barrier option price equation which is one of components of implied rating issued by FITCH. Ratings and model results are used to build a matrix of investment limits for each rating group, maturity, individual counterparties, and asset classes. The matrix is the main tool for the credit risk management.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Maximum credit risk without collateral or other credit enhancement

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

30. Risk management (continued)

Credit quality per class of financial assets

Financial assets of the Group, except equity investments are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

		31 December 2017		31 December 2016	
<i>In thousands of Armenian Drams</i>	<i>Credit rating</i>	<i>Amount</i>	<i>% in financial assets</i>	<i>Amount</i>	<i>% in financial assets</i>
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
Nostro accounts	P-1	286,106,719	84.5	387,653,933	91.6
	P-2	–	0.0	2,536,092	0.6
	Unrated	1,065,540	0.3	829,258	0.2
	NP	22,750	0.0	37,680	0.0
Term deposits	P-1	27,355,880	8.1	22,341,229	5.3
	Unrated	6,248,100	1.9	6,687,090	1.6
Repurchase agreements	P-1	14,533,961	4.3	–	0.0
Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	3,118,396	0.9	2,914,810	0.7
Total placements with banks and other financial institutions in foreign currency		338,451,346	100.0	423,000,092	100.0
Financial instruments at fair value through profit and loss					
Government bonds	Aaa	322,084,178	45.6	239,537,627	40.4
	Aa1-Aa3	24,755,725	3.5	33,038,691	5.6
	A1	–	0.0	4,853,108	0.8
State agency bonds and other securities	Aaa	42,460,098	6.0	107,076,919	18.0
	Aa1-Aa3	34,739,284	4.9	27,615,942	3.8
	A1-A3	4,859,913	0.7	4,956,437	0.8
Other securities	Aaa	207,512,790	29.3	106,958,695	18.0
	Aa1-Aa3	56,124,543	7.9	67,604,108	12.2
Money market instruments	Unrated	14,524,124	2.1	–	0.0
Securities of the Government of the Republic of Armenia	Ba2	–	0.0	2,352,333	0.4
Total financial instruments at fair value through profit and loss		707,060,655	100.0	593,993,860	100.0
Available-for-sale assets, excluding equity investments					
Securities of the Government of the Republic of Armenia	Ba2	17,521,378	19.2	21,204,072	21.0
Promissory note issued by the Government	Ba2	73,810,843	80.8	73,810,843	73.0
Corporate bonds	Unrated	–	0.0	6,111,734	6.0
Total available-for-sale assets, excluding equity investments		91,332,221	100.0	101,126,649	100.0
Held to maturity assets					
Government securities	Aa1-Aa3	4,566,163	14.2	–	0.0
State agency bonds	Aaa	–	0.0	1,811,606	5.8
	Aa1-Aa2	10,749,712	33.5	9,844,131	31.3
Other securities	Aaa	16,774,068	52.3	17,005,568	54.1
	Aa1	–	0.0	2,769,976	8.8
Total held to maturity assets		32,089,943	100.0	31,431,281	100.0

As at 31 December 2017 current accounts and term deposits included in the unrated credit rating category amounting to AMD 551,368 thousand and AMD 6,248,100 thousand respectively (31 December 2016: AMD 459,005 and 6,687,090 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

As at 31 December 2017 money market instruments included in the unrated credit category amounting to AMD 14,524,124 thousand (31 December 2016: AMD 0) represent securities issued by the Bank for International Settlements and are considered to have low credit risk.

30. Risk management (continued)

Credit quality per class of financial assets (continued)

As at 31 December 2016 unrated corporate bonds in the amount of AMD 6,111,734 thousand represent investments of one of the Group's subsidiaries into local investment and development funds.

		31 December 2017		31 December 2016	
<i>In thousands of Armenian Drams</i>	<i>Credit rating</i>	<i>Amount</i>	<i>% in financial assets</i>	<i>Amount</i>	<i>% in financial assets</i>
Placements and investments with banks and other financial institutions in domestic currency					
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	Settled after the end of the reporting period	6,448,926	5.3	7,601,310	7.2
	Not due at the date of authorisation of the consolidated financial statements for issue	116,361,221	94.7	98,293,641	92.8
	Total	122,810,147	100.0	105,894,951	100.0
Mortgage refinancing	Settled after the end of the reporting period	3,526,397	5.0	1,429,870	2.3
	Not due at the date of authorisation of the consolidated financial statements for issue	67,147,071	95.0	59,828,742	97.7
	Total	70,673,468	100.0	61,258,612	100.0
Deposits and current accounts in commercial banks	Settled after the end of the reporting period	11,167,490	22.4	4,181,922	8.3
	Not due at the date of authorisation of the consolidated financial statements for issue	38,684,859	77.6	46,182,174	91.7
	Total	49,852,349	100.0	50,364,096	100.0
Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	36,918,863	100.0	45,707,770	100.0
Total		36,918,863	100.0	45,707,770	100.0
Investments classified as loans and receivables	Settled after the end of the reporting period	580,036	2.4	389,951	2.8
	Not due at the date of authorisation of the consolidated financial statements for issue	23,345,000	97.6	13,401,129	97.2
	Total	23,925,036	100.0	13,791,080	100.0
Other loans		3,328,662	100.0	7,324,837	100.0
Total		3,328,662	100.0	7,324,837	100.0
Total placements and investments with banks and other financial institutions in domestic currency		307,508,525	–	284,341,346	–

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

Impairment assessment

The main considerations for the financial assets impairment assessment include whether any payments of principal or interest are overdue more than 30 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 Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

30. Risk management (continued)

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant asset within the Group's financial assets 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 realisable 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 to borrowers that are not individually significant and for individually significant financial assets 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 no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate 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.

Offsetting financial assets and financial liabilities

As at 31 December 2017 the Group had reverse repurchase contracts with commercial banks which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions. The trust manager may set off the Group's liabilities with the margin deposit in case of default.

The table below shows financial assets offset against financial liabilities in the consolidated statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements (ISDA, RISDA, etc.) that do not result in an offset in the consolidated statement of financial position:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position Financial instruments</i>	<i>Net amount</i>
<i>In thousands of Armenian Drams</i>					
31 December 2017					
Financial assets					
Repurchase agreements and other overnight facilities	51,452,824	–	51,452,824	51,452,824	–
Total	51,452,824	–	51,452,824	51,452,824	–
	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position Financial instruments</i>	<i>Net amount</i>
<i>In thousands of Armenian Drams</i>					
31 December 2016					
Financial assets					
Repurchase agreements and other overnight facilities	45,707,770	–	45,707,770	45,707,770	–
Total	45,707,770	–	45,707,770	45,707,770	–

30. Risk management (continued)

The geographical concentration of the Group's assets and liabilities is set out below:

<i>In thousands of Armenian Drams</i>	31 December 2017				31 December 2016			
	Armenia	OECD	CIS and other foreign banks	Total	Armenia	OECD	CIS and other foreign banks	Total
Assets								
Cash	45,575,878	–	–	45,575,878	24,771,453	–	–	24,771,453
Placements with banks and other financial institutions in foreign currency	6,799,467	331,114,957	536,922	338,451,346	7,146,095	415,433,695	420,302	423,000,092
Placements and investments with banks and other financial institutions in domestic currency	307,508,525	–	–	307,508,525	284,341,346	–	–	284,341,346
Financial instruments at fair value through profit or loss	–	707,060,655	–	707,060,655	2,352,333	591,641,527	–	593,993,860
Derivative financial assets	–	202,928	–	202,928	–	–	–	–
Available-for-sale assets	92,039,044	2,321,188	–	94,360,232	101,788,443	2,209,431	–	103,997,874
Held-to-maturity assets	–	32,089,943	–	32,089,943	–	31,431,281	–	31,431,281
Placements with the IMF	–	92,296,129	–	92,296,129	–	85,480,295	–	85,480,295
Property and equipment and intangible assets	76,133,890	–	–	76,133,890	77,089,263	–	–	77,089,263
Other assets	15,254,120	227,616	97,272	15,579,008	13,492,197	1,530,962	80,808	15,103,967
Total assets	543,310,924	1,165,313,416	634,194	1,709,258,534	510,981,130	1,127,727,191	501,110	1,639,209,431
Liabilities								
Notes and coins in circulation	516,094,481	–	–	516,094,481	455,401,582	–	–	455,401,582
Deposits and accounts of financial and other institutions	564,189,843	411,900	303,576	564,905,319	587,465,855	13,072	210,505	587,689,432
Derivative financial liabilities	13,184	–	–	13,184	28,177	51,773	–	79,950
Due to the Government	162,743,850	–	–	162,743,850	185,120,785	–	–	185,120,785
Due to the IMF	–	291,752,144	–	291,752,144	–	279,123,932	–	279,123,932
Other borrowed funds	–	147,200,496	8,381,125	155,581,621	–	108,188,703	5,004,020	113,192,723
Debt securities issued	4,751,824	–	–	4,751,824	8,788,038	–	–	8,788,038
Other liabilities	4,796,663	238,603	111,955	5,147,221	4,212,549	222,670	–	4,435,219
Total liabilities	1,252,589,845	439,603,143	8,796,656	1,700,989,644	1,241,016,986	387,600,150	5,214,525	1,633,831,661
Net assets	(709,278,921)	725,710,273	(8,162,462)	8,268,890	(730,035,856)	740,127,041	(4,713,415)	5,377,770

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments service and for smoothing out sharp fluctuations in national currency in the domestic market. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

30. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2017 and 31 December 2016 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

31 December 2017							
In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	516,094,481	–	–	–	–	–	516,094,481
Deposits and accounts of financial and other institutions	559,721,795	56,259	462,922	6,750,261	–	–	566,991,237
Derivative financial liabilities	13,184	–	–	–	–	–	13,184
Due to the Government	51,898,136	66,768,538	45,099,381	331,715	–	–	164,097,770
Due to the IMF	–	611,419	17,610,445	95,421,483	36,824,739	149,255,083	299,723,169
Other borrowed funds	570,500	23,842	11,842,946	67,146,556	98,630,305	–	178,214,149
Debt securities issued	–	–	495,060	5,133,660	–	–	5,628,720
Total non-discounted financial liabilities	1,128,298,096	67,460,058	75,510,754	174,783,675	135,455,044	149,255,083	1,730,762,710

31 December 2016							
In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	455,401,582	–	–	–	–	–	455,401,582
Deposits and accounts of financial and other institutions	584,461,402	47,434	2,472,976	1,327,832	–	–	588,309,644
Derivative financial liabilities	79,950	–	–	–	–	–	79,950
Due to the Government	53,700,664	97,147,271	35,248,064	1,028,752	–	–	187,124,751
Due to the IMF	–	372,121	14,269,746	87,065,212	42,462,439	140,854,294	285,023,812
Other borrowed funds	498,237	–	7,211,169	45,150,654	76,986,933	–	129,846,993
Debt securities issued	–	–	4,782,360	5,628,720	–	–	10,411,080
Total non-discounted financial liabilities	1,094,141,835	97,566,826	63,984,315	140,201,170	119,449,372	140,854,294	1,656,197,812

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, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

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.

Within the three-level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimisation principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now three years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (one year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Black-Litterman and Markowitz models with certain constraints are used.

30. Risk management (continued)

Interest rate risk (continued)

For risk monitoring, the Risk Management division of the Financial Department uses a number of widely used risk measures like Value at Risk, Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate available-for-sale assets at 31 December 2017 and 31 December 2016 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousands of Armenian Drams</i>	2017		2016	
	Change in yield curve, b.p.	Effect on equity	Change in yield curve, b.p.	Effect on equity
Currency				
AMD	+160	(995,556)	+370	(2,831,725)
AMD	-350	2,717,165	-370	3,901,482

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2017 and 31 December 2016, based on the assumption of changing interest rates. Amounts included in the table below are presented in the original currency.

	2017		2016	
	Change in basis points	Increase/ (decrease) of net result on financial instruments at FVTPL and equity	Change in basis points	Increase/ (decrease) of net result on financial instruments at FVTPL and equity
Currency				
USD	+/-50	(2,627,873)/2,627,873	+/-50	(2,138,813)/2,138,813
EUR	+/-50	(775,900)/775,900	+/-25	(812,525)/812,525

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2017 and 31 December 2016.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2017 and 31 December 2016 based on the assumption of changing interest rates on borrowings obtained by the Group:

<i>In thousands of Armenian Drams</i>	2017		2016	
	Change in basis points	Increase/ (decrease) of net interest expense and decrease/ (increase) of equity	Change in basis points	Increase/ (decrease) of net interest expense and decrease/ (increase) of equity
Currency				
USD	+/-110	239,464/(239,464)	+/-50	115,494/(115,494)
SDR	+/-50	627,273/(627,273)	+/-20	217,417/(217,417)

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

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 has set limits on positions by currency based on the regulations. Positions are monitored on a daily basis.

30. Risk management (continued)

Currency risk (continued)

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Armenian Dram with all other variables held constant:

<i>In thousands of Armenian Drams</i>	2017		2016	
	Increase in currency rate in %	Increase/ (decrease) of profit and equity	Increase in currency rate in %	Increase/ (decrease) of profit and equity
Currency				
USD	3.50%	21,648,693	6.00%	32,539,996
EUR	13.70%	16,035,808	11.00%	11,414,925
GBP	10.00%	3,815,183	12.00%	4,190,279
JPY	8.50%	2,023,396	13.00%	3,139,391
RUB	20.00%	18,287	21.00%	26,420
SDR	6.50%	(13,509,498)	8.25%	(16,388,432)

<i>In thousands of Armenian Drams</i>	2017		2016	
	Decrease in currency rate in %	Increase/ (decrease) of profit and equity	Decrease in currency rate in %	Increase/ (decrease) of profit and equity
Currency				
USD	-3.50%	(21,648,693)	-6.00%	(32,539,996)
EUR	-6.30%	(7,374,131)	-11.00%	(11,414,925)
GBP	-10.00%	(3,815,183)	-17.00%	(5,936,229)
JPY	-8.50%	(2,023,396)	-13.00%	(3,139,391)
RUB	-20.00%	(18,287)	-17.50%	(22,016)
SDR	-5.50%	11,431,113	-8.25%	16,388,432

The expected change in the exchange rates was determined by the Group by analysing annual standard deviations based on the historical market data of respective exchange rates.

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Armenia's foreign public debt is the major reason for holding reserves and is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject of revision at least semi-annually.

Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- ▶ Participation in the shareholders' meetings;
- ▶ Appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries);
- ▶ Regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries;
- ▶ Performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate;
- ▶ Review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

In 2015 the Bank has adopted a policy of activation of discussions with possible potential institutional investors regarding the disposal of its investments in the subsidiaries of the Bank.

31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

<i>In thousands of Armenian Drams</i>	31 December 2017		
	Current	Non-current	Total
Assets			
Cash	45,575,878	–	45,575,878
Placements with banks and other financial institutions in foreign currency	333,610,346	4,841,000	338,451,346
Financial instruments at fair value through profit or loss	707,060,655	–	707,060,655
Placements and investments with banks and other financial institutions in domestic currency	110,217,371	197,291,154	307,508,525
Derivative financial assets	202,928	–	202,928
Available-for-sale assets	78,370,115	15,990,117	94,360,232
Held-to-maturity assets	28,804,391	3,285,552	32,089,943
Placements with the IMF	3,498,833	88,797,296	92,296,129
Property and equipment	–	73,096,780	73,096,780
Intangible assets	–	3,037,110	3,037,110
Other assets	13,021,003	2,558,005	15,579,008
Total assets	1,320,361,520	388,897,014	1,709,258,534
Liabilities			
Notes and coins in circulation	516,094,481	–	516,094,481
Deposits and accounts of other financial institutions	559,657,039	5,248,280	564,905,319
Derivative financial liabilities	13,184	–	13,184
Due to the Government	162,422,906	320,944	162,743,850
Due to the IMF	16,529,679	275,222,465	291,752,144
Other borrowed funds	9,698,462	145,883,159	155,581,621
Debt securities issued	41,224	4,710,600	4,751,824
Other liabilities	5,111,688	35,533	5,147,221
Total liabilities	1,269,568,663	431,420,981	1,700,989,644
Net position as at 31 December 2017	50,792,857	(42,523,967)	8,268,890

<i>In thousands of Armenian Drams</i>	31 December 2016		
	Current	Non-current	Total
Assets			
Cash	24,771,453	–	24,771,453
Placements with banks and other financial institutions in foreign currency	420,580,392	2,419,700	423,000,092
Financial instruments as fair value through profit or loss	593,993,860	–	593,993,860
Placements and investments with banks and other financial institutions in domestic currency	122,329,202	162,012,144	284,341,346
Available-for-sale assets	82,129,257	21,868,617	103,997,874
Held-to-maturity assets	16,284,401	15,146,880	31,431,281
Placements with the IMF	1,685,591	83,794,704	85,480,295
Property and equipment	–	75,507,181	75,507,181
Intangible assets	–	1,582,082	1,582,082
Other assets	12,260,003	2,843,964	15,103,967
Total assets	1,274,034,159	365,175,272	1,639,209,431
Liabilities			
Notes and coins in circulation	455,401,582	–	455,401,582
Deposits and accounts of other financial institutions	586,741,152	948,280	587,689,432
Derivative financial liabilities	79,950	–	79,950
Due to the Government	184,157,954	962,831	185,120,785
Due to the IMF	13,468,438	265,655,494	279,123,932
Other borrowed funds	5,830,566	107,362,157	113,192,723
Debt securities issued	4,077,438	4,710,600	8,788,038
Other liabilities	4,401,304	33,915	4,435,219
Total liabilities	1,254,158,384	379,673,277	1,633,831,661
Net position as at 31 December 2016	19,875,775	(14,498,005)	5,377,770

32. Changes in liabilities arising from financing activities

	<i>Total liabilities from financing activities</i>
Carrying amount at 31 December 2015	355,133,156
Loans received	38,898,587
Loans redeemed	(7,998,714)
Foreign currency translation	(10,852,539)
IMF quota paid in the form of promissory note	18,622,225
Other	123,713
Carrying amount at 31 December 2016	393,926,428
Loans received	52,568,044
Loans redeemed	(23,274,235)
Foreign currency translation	24,703,243
Other	375,753
Carrying amount at 31 December 2017	448,299,233

The "Other" line includes the effect of accrued but not yet paid interest. The Group classifies interest paid as cash flows from operating activities.