PROGRAMME PROSPECTUS

"UNIBANK"OPEN JOINT-STOCK COMPANY

Issuer's trade name, organizational/legal form

12 Charents St., #53, 1-5, Yerevan, RA
Tel:. (+374 10) 59 22 59,

e-mail: unibank@unibank.am

Website: www.unibank.am

Class of bonds:	Registered, coupon bond
Form of bonds:	non-documentary
Par value (currency) of bonds:	100 USD (one hundred); 10.000 (ten thousand)AMD
Total Quantity of issue:	200,000 USD; 100,000 AMD
Total value of issue:	20mn USD (twenty million); 1bn AMD (one billion)
Annual Coupon yield	Subject to Board's resolution
Repayment period	Subject to Board's resolution
Coupon payment frequency:	Quarterly coupon payment

THE REGISTRATION OF THE PROSPECTUS BY THE RA CENTRAL BANK DOES NOT ASSURE SAFETY OF THE INVESTMENT, ACCURACY NOR AUTHENTICITY OF THE INFORMATION PRESENTED HEREIN

Contents

RESPONSIBLE PARTIES

We, the undersigned, assure that we have made all reasonable efforts to ascertain the accuracy and integrity of the included information. Therefore, we assure that to the best of our knowledge the information included in the Prospectus is accurate and integral and contains no omission that may misrepresent the substance of the Prospectus.

Signatories

Gagik Zakaryan	**Board Chairman**	(signature)	(date)
George Piskov	**Board member**	(signature)	(date)
Hrahat Arzumanyan	**Board member**	(signature)	(date)
Eduard Zamanyan	**Board member**	(signature)	(date)
David Papazian	**Board member**	(signature)	(date)
Vardan Atayan	**Board member**	(signature)	(date)
Artem Konstandyan	**Board member**	(signature)	(date)
Mesrop Hakobyan	**Executive Board Chairman - CEO**	(signature)	(date)
Ararat Ghukasyan	**First Vice-Chairman of the Executive Board**	(signature)	(date)
Tigran Badanyan	**Risk Management Director**	(signature)	(date)
Gohar Grigoryan	**Financial Director - Chief Accountant**	(signature)	(date)
Gurgen Ghukasyan	**Retail Business Promotion and Sales Director**	(signature)	(date)
Ovsanna Arakelyan	**Vice-Chairman of the Executive Board, Legal Service and Overdue Liabilities Collection Director**	(signature)	(date)
David Petrosyan	**Corporate Business Promotion and Sales Director**	(signature)	(date)

SECTION 1. Summary
Notification for the investor

This Summary represents a brief introduction to the Prospectus. To make a decision on investing in the bonds of Unibank OJSC, potential investors should read the Prospectus in its entirety.

The persons in charge of the Summary bear civil responsibility for any incomplete or misleading information included in this Summary, but only in the case that such information is inaccurate or inconsistent when viewed together with other parts of the Prospectus.

Potential investors may obtain a Prospectus and supporting documents in hard copy form at the Bank's Head office or its branches, or may visit the Bank's website at www.unibank.am for an electronic copy.

1.1 Information on the Issuer and its Activities

1.1.1 Issuer's requisites and contacts

Full name of the Bank:

in Armenian – «ՅՈՒՆԻԲԱՆԿ» ԲԱՑ ԲԱԺՆԵՏԻՐԱԿԱՆ ԸՆԿԵՐՈՒԹՅՈՒՆ

in Russian – ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "ЮНИБАНК"

in English – "UNIBANK" OPEN JOINT STOCK COMPANY

Short name of the Bank:

in Armenian - «ՅՈՒՆԻԲԱՆԿ» ԲԲԸ

in Russian - ОАО "ЮНИБАНК"

in English - "UNIBANK" OJSC

The Bank is located at: 12 Charents St., #53, 1-5, Yerevan, Kentron Admin. District, RA

Mailing address of the Bank:12 Charents St., #53, 1-5, Yerevan, Kentron Admin.District, RA.

Communications:

Telephone: + 37410 59 22 59

Fax: + 37410 55 51 40

E-mail: unibank@unibank.am

Website: www.unibank.am, www.unibank-armenia.com

For inquiries related to the investment in bonds, investors may contact M. Hambardzumyan - Head of Investor Relations Administration on +374 10 59 22 36 (extension 301).

1.1.2 Issuer's brief Description and strategy

"UNIBANK" OJSC (hereinafter the "Bank" or "Unibank") was founded in October 2001, as a closed joint-stock company. Unibank was registered in the Republic of Armenia ("Armenia" or "RA") as a bank on 9 October 2001 (Registration Certificate No. 0373 and Registration number 81 approved by the RA Central Bank ("CBA") decision No. 260 dated 9 October 2001; Banking license No. 81 issued on 10 October 2001.). On 12 March 2015, according to a decision taken at the Bank's Extraordinary General Shareholders Meeting, the Bank was reorganized into an open joint-stock company.

In 2002, Unibank launched Unistream money transfer system, which is one of the leading money transfer systems in Armenia.

In 2003 Unibank became a member of the local ArCa payment system.

In 2004 Unibank became a member of Visa International.

In 2005 Unibank launched extensive lending of mortgage and auto loans, occupying, respectively, second and first place in the RA banking sector[1].

In 2006 Unibank became a participant of the International Fund for Agricultural Development ("IFAD") programme for promoting investments in rural areas, as well as of the Small and Medium Entrepreneurship Development National Center Foundation's ("SMEDNC") small and medium business development programme.

In 2007 ABN AMRO's bank risk management programme was introduced.

In 2008 Unibank became a member of the RA Stock Exchange.

In 2009 Unibank's branch network was connected to a central database and currently all the Bank branches operate online.

On 3 January 2010 Moody's international rating agency awarded Unibank its first rating; a Financial Stability Rating of E+, Ba3 long-term and NP short-term ratings for foreign currency and national currency deposits. All the ratings had a "Stable" forecast.

Since 2011 Unibank has been jointly operating a trade finance programme with the Asian Development Bank, under which letters of credit and bank guarantees are issued to entrepreneurs.

In 2012 Unibank was granted Armenia's "Best Dealing Bank 2012" award by Thomson Reuters International Corporation and Unibank was included in the list of Armenia's Top 100 Taxpayers.

In 2013 the World Bank's International Finance Corporation ("IFC"), Black Sea Trade and Development Bank ("BSTDB") and Unibank signed a cooperation agreement to develop a Small and Medium Enterprise ("SME") finance programme. Unibank began collaboration with the American Chamber of Commerce ("AmCham") in Armenia by becoming an associate member of the organization.

[1] Rating of RA Banks by Arminfo rating marketing agrency, 2006.

In 2014 Unibank began cooperation with Intel Express, the international money transfer system. It also introduced ISO 27001:2013 information security standards and set up Unibank Privé, its private bank. It also introduced its "one window" customer service principle in its regular Bank branches, and in Unibank Privé private bank. Unibank received a "Quality Excellence" award (RBI STP Quality Awards) from Raiffeisen Bank International of Austria for providing high quality SWIFT transfer services.

On 12 March 2015, according to a decision taken at the Bank's Extraordinary General Shareholders Meeting, the Bank was reorganized into an open joint-stock company.

On 1 July 2015 the Bank became an Account Operator at the Central Depositary of Armenia and a member of the Unified System of Security Registry Maintenance and Settlement.

Unibank is the first company in RA appearing in the market with Initial Public Offering (IPO) of shares. The decision was prompted by Unibank's ambition to reach a new development level and to become a people's bank.

Today Unibank is a universal bank offering a wide range of modern banking services to its customers. The Bank has a reputation of being a financial institution with a conservative management style, open to innovation, and which implements a constructive entrepreneurship culture within the Bank and operates on the principles fairness and transparency. Unibank's client database as of 31.03.2018 amounts over 365,000 clients.

Pursuant to the strategy approved by the Bank's Board, the main focus of Unibank is on the development of its SME and retail business.

1.1.3 Issuer's statutory capital

Thus Bank's statutory capital as of 31.03.2018 makes AMD 20,489,652,500 comprising 172,886,525 common shares, each with a par value of AMD 100 and 32,010,000 preference shares, each with a par value of AMD 100. Annual dividend paid for the preferred certified shares is counted at 5% interest rate annually to the share nominal value.

Issuer's strategy

Incidentally, Unibank is the first bank in Armenia to auction shares through IPO at NASDAQ OMX Armenia. Expended database of clients and investors is a strong evidence of the Bank's reliability. Strategic directions of Unibank are retail business development and assistance to SME. The main goals of Unibank are to strengthen its positions in the banking system of Armenia, to increase the business volume, as well as to develop high profitability segments, to increase activity efficiency via implementing innovation technologies and management methods, to increase activity efficiency via implementing innovation technologies and management methods, expanding branch and sales network and applying customer-oriented policy.

1.1.4 Issuer's Brief Description of the Business

The Bank carries out functions prescribed by RA legislation, namely:

Attracting funds:

- The Bank accepts term and demand deposits in AMD and foreign currency from individuals and legal entities.

Allocation of loans and other funds:

- The Bank carries out lending to businesses and provides its customers with guarantees, documentary letters of credit, credit lines, overdrafts, bank guarantees, and factoring services. Unibank considers the development of lending to SME's as one of its core strategies. Unibank offers loan products specifically designed for its customers taking into account company and industry specific data.

- Unibank's retail banking is also a core business direction of the Bank. Unibank provides specific or general purpose consumer loans, which can be used for renovation, refurbishment, educational, medical, travel or other expenses or purchases. The Bank also provides residential mortgages, loans for purchasing commercial property, construction and renovation loans, auto loans, gold secured loans.

Bank transfers:

- The Bank has been a member of the SWIFT international payment system since 2003. The Bank has correspondent accounts with 20 local and international banks that allow the Bank to provide payment and settlement services for Bank customers in any currency.

- The Bank offers money transfer services to individuals through the Unistream and Intel Express international money transfer systems.

Issuance and service of plastic cards:

- Unibank issues both local ArCa cards, as well as Visa cards to its customers. Unibank is now issuing Visa chip cards through its own processing centre.

Foreign exchange and securities dealing and brokerage services:

- The Bank conducts foreign exchange operations and transactions in securities.

Acceptance of utility payments:

- Unibank's processes utility payments. Customers are provided with UNIPAY utility payment cards free of charge that contain the necessary information for customers to make utility payments quickly and conveniently.

Acceptance of payments for public services:

- In order to provide customers with comprehensive payment services, the Bank promotes receiving payments from individuals and legal entities on taxes, electricity, telephone and other public services.

Other services:

- Unibank conducts settlement and cash servicing for its clients, including account opening and servicing, cash transactions, issuing guarantees, cash collection and transactions in securities. The Bank also provides services to those citizens of the RA who are supported through government social programmes.
- Unibank's "Internet Bank-Client" system is designed so that customers can manage their bank accounts online, receiving account statements and making payments online without visiting the Bank.
- Unibank offers its customers fireproof safe deposit boxes located in specially constructed secure areas, where customers can place items of value and documents for safekeeping.

Unibank has built a strong retail banking network and now operates through 46 branches in Yerevan and regions, as well as having a representative office in Moscow, Russia.

The Bank's assets are summarised below. Thousands AMD

thousands AMD	**31.12.2017**(audited)	**31.12.2016**(audited)	**31.12.2015**(audited)
Assets, including:	202,721,471	185,396,089	158,139,860
Earning assets	156,600,173	133,027,017	118,730,169
%of earning assets	77%	72%	75%

1.1.5 Issuer's Organisational Structure

Bank's organisational structure has been presented in the Appendix 1 of the given Prospectus.

1.2 Risks Related to the Issuer and Bonds

Certain risk factors exist that pertain to the investments into bonds proposed by this Prospectus. The investors should make the decision by totally understanding the nature of the investment and the main risks that can arise from it, according to their experience, goals, financial resources, risk appetites and other factors. Before making a decision every investor should acquaint himself/herself with the risks connected with investing in the Bank'bonds.

Below there are presented the risks and measures taken to minimise these risks, which are peculiar for the Banks, and especially for Unibank OJSC.

In the process of functioning the Bank deals with the risks typical of banking activity for the management of which there are sufficient resources and mechanisms. The most significant risks specified by the Bank are:

The credit risk. Failure to fulfil contractual obligations by borrowers that can have a negative impact on the Bank's activity and result in additional expenses that will negatively affect the Bank's income.

The credit portfolio of "Unibank" OJSC is quite diversified and it is devoid of large concentrations. The dominant crediting directions are retail crediting and SME crediting. Nevertheless, there are non-performing loans in the Bank's portfolio which may bring to potential losses.

According to the risk analysis the credit portfolio of the Bank has the following structure as of 31.03.2018:

Thousands AMD

Assets	Performing assets	Non Performing assets	
	Low Risk	Medium Risk	High Risk
Loans, including			
Residents of RA	86,650,525	5,436,689	52,286,902
Residents of CIS countries	10,781,655		2,588,955
Total	97,432,180	5,436,689	54,875,857

At the same time the indices characterizing the credit risk are as follows.

Loan reserve fund/total loans = 3.85 %

Non-performing loans/total loans = 38.24%

Reserve fund for non-performing loans/total equity = 23.24%

Special reserve for potential loan losses/non-performing loans = 10.06%

Income coverage ratio (net operating income + expenses for loan loss provision)/net loss of loans= 267.15%

Risk-weighted net interest margin = 2.31%
The Bank regulates the levels of the credit risk by setting limits on one borrower or group of related borrowers as well as by sphere and geographic concentration.
Such risks are regularly controlled and management principles are subject to revision on an annual basis or more frequently, if needed. The limits of credit risks by products, economic sectors and geographic regions are confirmed and in case of need are revised by the Board of the Bank.
Foreign exchange risk may arise as a result of abrupt fluctuations in exchange rates. The FX risk in the Bank is on quite a low level as the Bank conducts restraint policy and does not generally have open foreign exchange positions.
Interest risk arises due to abrupt changes of market interest rates. Almost all the assets and liabilities of the Bank have fixed rates. However in this case as well there may still arise risks connected with a

maturity mismatch between assets and liabilities. According to the analysis, abrupt fluctuations in market interest rates will lead to the loss of maximum 100 mln AMD. To minimize the mentioned risks the Bank applies the relevant pricing policy.

The risk of changes in the legislation may be caused by changes in legislation that affect both the Bank's operations and the situation in the market. At the same time, it should be noted that the changes may also affect the attractiveness of the bonds and, as a result, liquidity.

Bond related risks:
The most significant risks are considered by the Bank:

Bond liquidity risk that may arise due to drastic changes in the market situation or deterioration of the Bank's financial position. As a result, bonds can lose their attractiveness and the investor is forced to sell bonds at a lower price than the market price.
Foreign currency risk that may arise due to fluctuations in the exchange rate that can have a significant impact on both the Bank and the securities market, as well as the Bank's risk management of foreign currency assets and liabilities, and that foreign investors have no enough awareness.
For example in case of US dollar devaluation, the investor will have some losses. An investor may also bear certain losses (in case of AMD devaluation) due to foreign currency exchange transactions in AMD, convertible into USD and repayment of bonds at USD exchange rate.
Interest rate risk may arise due to drastic changes in market interest rates. It may affect bond yields, attractiveness and liquidity, as the bond price and yield are in direct opposite to each other.
Each of the described risks may have some negative influence both on the Bank status and the situation at the market thus resulting in not performing obligations of the Bank. This may also lead to the decline of the shares circulation at the market.
However, taking into account the present developments within the banking system, the low risk and cautious lending policy of the Bank, the level of risk management in the Bank, as well as the strict control from regulatory bodies, the abovementioned risks are estimated to be low.
The Bank may face other risks, which the Bank is not aware of at this time, or the Bank has not yet considered and are therefore not included in this Prospectus.

1.3 Changes Related to the Issuer's Business Development and Financial data

The Bank conducts its activities in compliance with the strategy approved by the Bank's Board.

The Bank's activities are overseen by the Board of the Bank and Executive Board which effectively respond to changes in the market environment and constantly adjust the Bank services and tariffs to take into consideration market forces.

The most essential aspect in the Bank's development programme is the growth of its Retail and SME business, its drive to constantly improve its quality of service, the expansion of its scope of client services and the attraction of funds (in particular through cooperation with legal entities, including non-residents, and international organizations), as well as ensuring the Bank's liquidity and readiness to face possible developments and shocks in the financial market.

At the date of filing this Prospectus for registration, all licenses and permits necessary to conduct operations are valid and up-to-date, there are no court proceedings underway and no organizational changes are pending or in progress. Statutory capital of the Bank equals to 32,561,317 AMD.

Along with the foregoing, the Bank's management constantly focuses on adjusting the Bank's activities and organizational structure to respond to the changes in the market with a view to improving its operations and profitability.

1.4 Information on the Issuer's auditor

Since 2009, the financial audit work at the Bank has been carried out by Grant Thornton CJSC Audit Company, the Armenian member of Grant Thornton International.

Address: 8/1 Vagharshyan St, Yerevan 0012, RA;

Tel.: +374 (10) 260 964, 260 976,

Fax: +374 (10) 260 961,

E-mail: www.gta.am

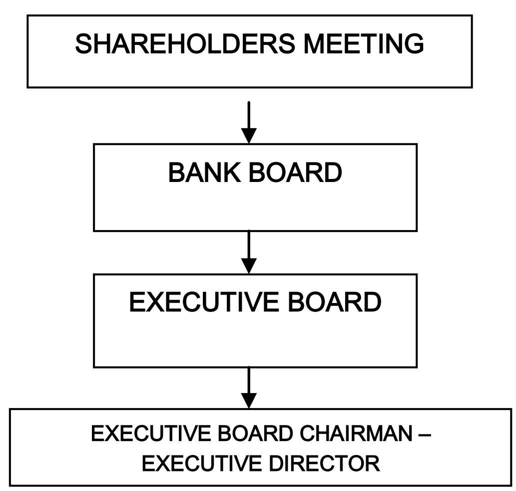
Director-shareholder: Gagik Gyulbudaghyan

1.5 Information on the Issuer's Governing Bodies , Employees, Shareholders

The Bank's governing bodies are:

- Shareholders General Meeting (hereinafter "the Meeting");
- the Board;
- Executive Body, which includes the Executive Board (hereinafter the "Executive Board") and the Head of the Executive Board (hereinafter referred to as "the Executive Board Chairman").

The Bank's governing bodies operate in the following manner:



The Bank Board consists of 5 members:

- Gagik Zakaryan – Chairman of the Board, over 24 years experience
- Georgi Piskov – Board member, over 24 years experience
- Hrahat Arzumanyan - Board member, 19 years experience
- Eduard Zamanyan - Board member, 25 years experience
- David Papazyan - Board member, 12 years experience

The Bank Executive Board consists of 7 members:

- Mesrop Hakobyan Chairman of the Executive Board, over 21 years experience
- Ararat Ghukasyan, First Vice-Chairman of the Executive Board, over 23 years experience
- Tigran Badanyan - Risk Management Director, over 25 years experience
- Gohar Grigoryan, Financial Director - Chief Accountant, Member of the Executive Board, over 24 years experience
- Arakelyan Ovsanna, Vice-Chairman of the Executive Board – Director of Legal Services and Overdue Liabilities Collection, over 19 years experience
- David Petrosyan, Director of Corporate Business Promotion and Sales, over 15 years experience
- Ghukasyan Gurgen, Director of Retail Business Promotion and Sales, over 13 years experience

The Bank had 785 employees on 31 December 2017.

The main shareholder of the Bank is Uniholding GG Limited (87.8%), a company registered in Nikosia with its office located at Patmou 5B, Aglatzia, P.C. 2013, Nikosia, Cyprus, comprising 147,805,227 common shares, each with a par value of AMD 100 and 32,010,000 preference shares, each with a par value of AMD 100.The rest of the company's ordinary nominal shareholders are 5 legal entities and 173 individuals.

1.6 Information on the issued securities

10.07.2015

Securities class	Ordinary shares
Securities from	Non documentary
Securities quantity	14,500,000 stocks

Nominal value of the securities (currency)	100 AMD
Securities placement value (currency)	230 AMD
Total nominal value of the securities	1,450,000,000 AMD
Securities total placement value	3,335,000,000 AMD

15.04.2016

Securities class	Ordinary shares
Securities from	Non documentary
Securities quantity	22,704,347 stocks
Nominal value of the securities (currency)	100 AMD
Securities placement value (currency)	230 AMD
Total nominal value of the securities	2, 270,434,700 AMD
Securities total placement value	5,222,000,000 AMD

19.05.2016

Securities class	Ordinary shares
Securities from	Non documentary
Securities quantity	12,173,914 stocks
Nominal value of the securities (currency)	100 AMD
Securities placement value (currency)	230 AMD
Total nominal value of the securities	1, 217,391,400 AMD
Securities total placement value	2,800,000,000 AMD

09.11.2016

Securities class	Ordinary shares
Securities from	Non documentary
Securities quantity	14,376,044 stocks

Nominal value of the securities (currency)	100 AMD
Securities placement value (currency)	230 AMD
Total nominal value of the securities	1,437,604,400 AMD
Securities total placement value	3,306,500,000 AMD

In June 2016 Unibank successfully placed 50,000 USD-denominated nominal coupon bonds with the annual yield of 8%. After the placement, on June 30, USD-denominated nominal coupon bonds (UNIBB1) were listed at NASDAQ OMX Armenia stock exchange, Main list (Abond).

Short overview on issued USD denominated bonds (AMUNIBB21ER8)		
Bond ISIN		AMUNIBB21ER8
Bonds yield		8%
Bonds repayment period		8-Apr-18
Coupon payment period		4
Allocated number of bonds		50,000
Allocated volume of bonds		5,000,000
Bonds average price		100.2814
Number of bond holders		128
Bondholers breakdown by individuals and legal entities	Individuals	126
	Legal entities	2

In November 2017 Unibank successfully placed 50,000 USD-denominated nominal coupon bonds with the annual yield of 5.75%. In November 2017 USD-denominated nominal coupon bonds (UNIBB1) were listed at NASDAQ OMX Armenia stock exchange, Main list (Abond).

Short overview on issued USD denominated bonds (AMUNIBB21ER8)		
Bond ISIN		AMUNIBB23ER4
Bonds yield		5.75%
Bonds repayment period		11-Sep-2020թ
Coupon payment period		4
Allocated number of bonds		50,000
Allocated volume of bonds		5,000,000
Bonds average price		100.41
Number of bond holders		161
Bondholers breakdown by individuals and legal entities	Individuals	158
	Legal entities	3

In May 2017 Unibank successfully placed AMD nominal coupon bonds with the annual yield of 13.5%. In June 2017 AMD-denominated nominal coupon bonds were listed at NASDAQ OMX Armenia stock exchange, Secondary list (Bbond).

Short overview on issued AMD denominated bonds (AMUNIBB22ER6)		
Bond ISIN		AMUNIBB22ER6
Bonds yield		13.50%
Bonds repayment period		23-Nov-18
Coupon payment period		4
Allocated number of bonds		25,000
Allocated volume of bonds		250,000,000
Bonds average price		100.98
Number of bond holders		32
Bondholers breakdown by individuals and legal entities	Individuals	30
	Legal entities	2

In February 2018 Unibank successfully placed AMD nominal coupon bonds with the annual yield of 10%. In February 2018 AMD-denominated nominal coupon bonds were listed at NASDAQ OMX Armenia stock exchange, Secondary list (Bbond).

Short overview on issued AMD denominated bonds (AMUNIBB22ER5)		
Bond ISIN		AMUNIBB22ER5
Bonds yield		10%
Bonds repayment period		13-Feb-2020
Coupon payment period		4
Allocated number of bonds		25,000
Allocated volume of bonds		250,000,000
Bonds average price		10 040.65
Number of bond holders		31
Bondholers breakdown by individuals and legal entities	Individuals	30
	Legal entities	1

In March 2018 Unibank successfully placed 50,000 USD-denominated nominal coupon bonds with the annual yield of 5.5%. In April 2018 USD-denominated nominal coupon bonds were listed at NASDAQ OMX Armenia stock exchange, Main list (Abond).

Short overview on issued USD denominated bonds (AMUNIBB22ER4)		
Bond ISIN		AMUNIBB22ER4
Bonds yield		5.5%
Bonds repayment period		13-May-2021
Coupon payment period		5
Allocated number of bonds		50,000
Allocated volume of bonds		5,000,000
Bonds average price		100.4894
Number of bond holders		54
Bondholders breakdown by individuals and legal entities	Individuals	53
	Legal entities	1

1.7 Key data on the Issuer's issued Bonds

Securities class	Nominal, non-convertible, coupon
Securities from	non-documentary
Securities quantity	200,000 USD; 100,000 AMD
Securities nominal value (currency)	100 USD; 10.000 AMD

Total securities nominal value	20mn USD; 1bn AMD
Coupon payment frequency	On quarterly basis
Placement date	Subject to Issuer’s Board resolution for each bond tranche
Annual coupon yield	Subject to Issuer’s Board resolution
Flotation period	Subject to Issuer’s Board resolution
Form of security	Non secured

The final terms of issuance, placement, circulation and repayment of bonds are subject to resolution by the Board of the Bank. The final issuance conditions for each issue of securities are submitted to the Central Bank and published at least two days before placement.

The main purpose of the bonds placement by the Bank is the attraction of funds from the market. The attracted funds will be directed to the loans granting.

A person who has decided to accept the offer and buy the bonds must participate in the bonds placement through the Bank's head office and a branch network. As a buyer, any resident or non-resident physical or legal person may act.

1.8 Summary financial data of the Issuer.

Bank's financial data summary. The indices in absolute value are expressed in thousand AMD.

The name of index	31.12.2017 (Audited)	31.12.2016 (Audited)	31.12.2015 (Audited)
Net profit, after deducting the cost of profit tax	67,602	-443,218	358,481
Average equity	35,334,279	29,704,263	21,572,971
Return on equity (ROE), %	0.2%	-1.5%	1.7%
Net profit, after deducting the cost of profit tax	67,602	-443,218	358,481
Average total assets	191,844,966	174,248,544	164,199,203
Return on assets (ROA), %	0.0%	-0.3%	0.2%
Net profit, after deducting the cost of profit tax	67,602	-443,218	358,481
Operating income	3,454,274	10,831,503	9,421,982
Net profit margin (NPM), %	0.5%	-4.1%	3.8%
Operating income	13,454,274	10,831,503	9,421,982
Average total assets	191,844,966	174,248,544	164,199,203
Assets utilization (AU), %	7.0%	6.2%	5.7%
Average total assets	191,844,966	174,248,544	164,199,203
Average equity	35,334,279	29,704,263	21,572,971
Equity multiplier (EM)	5.43	5.87	7.61
Net interest income	10,491,356	8,361,044	6,283,035
Average profitable assets	148,972,966	131,429,702	121,353,467
Net profit margin (NIM)	7.0%	6.4%	5.2%
Interest income	22,296,742	21,329,971	19,714,397
Average profitable assets	148,972,966	131,429,702	121,353,467
Yield on profitable assets	15.0%	16.2%	16.2%
Interest expenses	11,805,386	12,968,927	13,431,362
Liabilities for which interest expenses are made	154,817,860	142,975,618	140,958,062
Expendability of those liabilities, in connection of which rate	7.6%	9.1%	9.5%
Net profit, after deducting the cost of profit tax	67,602	-443,218	358,481
The weighted average number of shares	203,732,963	163,963,708	131,094,713
Earnings per share (EPS)	0.3	-2.7	3
Spread	7.3%	7.2%	6.7%

SECTION 2. INFORMATION ON THE BONDS

2.1 Risk factors

Certain risk factors exist that pertain to the investments into bonds proposed by this Prospectus. The investors should make the decision by totally understanding the nature of the investment and the main risks that can arise from it, according to their experience, goals, financial resources, risk appetites and other factors. Before making a decision every investor should acquaint himself/herself with the risks connected with investing in the Bank'bonds.

Furthermore, the potential investor has to understand that the below listed risks do not cover all risks the Issuer may ever bear. The issuer has revealed only those they consider essential. Presumably there might be additional risks, which the Issuer does not currently consider essential or which are not known at present, and any such risk can have the aforementioned effect and consequences.

Below there are presented the risks and measures taken to minimise these risks, which are peculiar for the Banks, and especially for Unibank OJSC.

Liquidity risk. Liquidity risk may arise from abrupt change in the market situation or the impairment of the Bank's financial status. The Issuer has an action plan for securing the liquidity of bonds, nonetheless the Issuer cannot guarantee that the bonds can be sold in the secondary market at any point or at the preferable price. The bondholder may not buy the desired number of bonds at any point or may be forced to sell the bonds at a lower price, thus incurring loss.

Market risk. Market risk arises due to changes in the economic factors affecting the bond price. The Issuer's bond price and demand can change in the secondary market due to changes in economic indicators of the internal and external markets, which can cause the Investor's loss. The basic marker risks involve the Exchange Risk and Interest Rate Risk.

Exchange Risk. Exchange Risk arises due to exchange fluctuations of the national currency and can adversely affect the investor's return on income, where the Investor estimates the income with AMD. In particular, upon appreciation of the national currency, when converting the amounts earned from redemption of bonds with foreign currency, the income estimated in AMD can be less than the expected (negative). The loss may occur from exchange fluctuations also due to inadequate management of assets and liabilities expressed with foreign currency.

Interest Rate Risk. The volatility of interest rates in the Armenia financial market may adversely affect the bond yield and liquidity rates. Increase of interest rates in the market may also force the Issuer to revise (raise) the bond yield, which will in turn cause the decline in price. In such situation, the Investor will incur loss or will not earn the planned income upon the sale of bonds before maturity.

Legal risk. Legal risk is the likelihood that the Bank's internal legal acts, applicable business processes, instruments, transactions, and contractual agreements do not comply with the applicable law, thus incurring loss for the Bank. Changes may also affect the attractiveness of the bonds and the resulting liquidity.

Risk of reputation is the likelihood that the Bank may lose its operating or potential customers, partners, or decrease the amount of transactions / transactions that may result from a negative public opinion that may result in financial loss and / or liquidity for the Bank.

2.2 General Information

Purpose of Issuance. Funds attracted via placement of non-documentary nominal coupon bonds of "Unibank" OJSC will be used for short-term and long-term crediting, as well as for making investments.

Final terms of publicity. The final terms of bonds issue, placement, turnover and repayment are subject to the Bank's Board decision. The final issuance terms for each issue of securities are submitted to the Central Bank of Armenia at least two days before the placement of each tranche. The final terms of each issue of securities shall be published by the Issuer on its website.

2.3 Information on the Bonds Offered

2.3.1. Type and class of securities. "Unibank" OJSC bonds are nominal, coupon, non-documentary, indivisible and non-convertible. Issuable bonds have no differentiated password yet.

2.3.2. Country. Non-documentary nominal coupon bonds will be issued in the territory of the Republic of Armenia, in accordance with the legislation of RA and legislative acts, disputes arising out of them, including judicial ones, are subject to resolution in the manner prescribed by RA legislation.

2.3.3. Form of securities Issuable bonds are non-documentary. "Central Depository of Armenia" OJSC keeps the bond registry.

2.3.4 Par value and quantity of securities. The par value of per issued and allocated bond is 100 (one hundred) USD for bonds in USD and 10,000 (ten thousand) AMD for bonds in AMD.

2.3.5. Currency of issue. Bonds are to be issued in USD and AMD.

2.3.6. Details of bonds clarification. In case of failure of coupon payment and/or principal sum within the set period of time, the Bank shall be recognized bankrupt and subsequently be liquidated according to the procedure stipulated by the law of RA "On bankruptcy of banks, credit organizations, investment companies, investment fund managers and insurance companies". In case of the Bank's bankruptcy payments to the investors are made in the priority order as specified in article 31 of the law of RA "On bankruptcy of banks, credit organizations, investment companies, investment fund managers and insurance companies", according to which in fourth priority will be satisfied the demands of bond owners, excepting the investments which are considered to be deposits under the law of RA "On guaranteed compensation of bank deposits of physical persons" which are satisfied in third priority. Demands of each priority shall be satisfied after full satisfaction of demands of the preceding priority.

Funds attracted via issuing bonds are guaranteed under the law of RA "On guaranteed compensation of bank deposits of physical persons" and according to the procedure stipulated by the same law are subject to compensation to the limits defined by article 3:

a)If a depositor holds only dram denominated bank deposit with the insolvent bank, the amount of the guaranteed deposit is ten million Armenian drams, b)If a depositor holds only foreign currency denominated bank deposit with the insolvent bank, the amount of the guaranteed deposit is five million Armenian drams,

c)If a depositor holds both dram and foreign currency denominated bank deposits with the insolvent bank and the dram deposit amount is more than five million AMD, only the dram deposit is guaranteed for up to ten million AMD,

d)If a depositor holds both dram and foreign currency denominated bank deposits with the insolvent bank and the dram deposit amount is less than five million AMD, the dram deposit is fully guaranteed and the foreign currency deposit is guaranteed in the amount of the difference between five million AMD and the guaranteed deposit in AMD.

2.3.7. Basic rights, responsibilities and limitations arising from securities

By virtue of bonds acquisition the bondholders obtain the following rights;

-The bond owners have the right for coupon payment from the nominal value of the bond according to the relevant schedule. By the maturity date of receiving coupon yield/bonds turnover for exercising the right of receiving their nominal value, no extra activities are to be performed by the investors and the coupon yield/bond nominal value is transferred by the issuer to the banking account of the investor/owner.

-In case the issuer breaches the fixed deadline for coupon and/or repayment, to conduct activities under the law to satisfy his demands arising from the property right on the bonds.

-To pledge the bonds in the manner stipulated by the law.

-At his own discretion to alienate the bonds on Stock exchange or beyond it in the manner stipulated by the law, concurrently the investors shall take into account that sale of securities, permitted to trade on the regulated market, is prohibited beyond the regulated market.

-Other rights stipulated by the law.

At the same time the bond owner is obliged, within the terms stipulated by the bonds issue provisions, to realize monetary or any non-monetary obligations arising from the purchase, alienation of bonds and other activities as well as to bear other liabilities stipulated by the law.

2.3.8 Coupon interest rate and payment terms.

The annual coupon rate paid is subject to Board's decision. The coupon yield for the bonds will be paid quarterly.

Coupon will be paid to bond owners and/or bondholders on the day of coupon calculation. If the calculation date coincides with a non working day, coupon payment is made on the next working day.

The right of receiving coupon (interest) is given to persons recorded in the bond owners' registry by the end of the day preceding coupon calculation date (bond owners or holders). The bond owner's registry is closed at 18:00 on the day preceding regular coupon calculation date, i.e. the owners recorded in the registry after the mentioned time, do not have the right to receive coupon being paid for the previous coupon period (previous quarter). Income (interest) to bond owners is to be paid within the day following the date of closing the bond owners' registry.

Due coupon payment is calculated with two digits after comma and the rounding is made according to mathematical rules to the nearest whole number, for bond owners and/or holders coupon payments shall be rounded to the nearest 10th AMD (rounding is made according to mathematical rules to the nearest whole number). Mathematical rounding means the method of rounding when the value of the whole digit does not change if the digit on the right hand side of the requested rounding digit is between 0-4, and it increases by one if the digit on the right hand side of the requested rounding digit is between 5-9. "Unibank" OJSC shall pay coupon non-cash via transferring to the bank accounts indicated in the bond owners and/or holders registry.

Bank does not pay the owners the bank account details of which are not available in the extract of bond owners registry obtained from the Depository and Bank does not possess this information in any other way. In this case within three working days Bank deposits the amount, due to these holders, in the notary's account.

The value of coupon payments is calculated using the following formula:

CV=(FV X C) /k, where

CV – coupon value,

FV – face value of a bond

C – annual nominal coupon interest rate expressed as a percentage

k – number of payable bonds per year (k=4 for quarterly coupon payments).

Coupon accrual formula:

AI=FV x C x DCS

K DCC

AI – accrued coupon yield,

FV – face value of a bond,

C – annual nominal coupon interest rate expressed as a percentage,

k – number of payable bonds per year (for quarterly coupon payments k=4).

DCS – actual number of days from the previous coupon day to the settlement day, based on the relevant day count convention

DCC – actual number of days in a respective coupon period calculated from the previous coupon cay to the following coupon day, based on the relevant day count convention.

Day count convention for the issuer's bonds is 30/360:

DCS=360 (Y2-Y1)+30(M2-M1)+(D2-D1)

D2M2Y2 – settlement date,

D1M1Y1 – coupon payment date preceding the settlement date, if bond coupon is not paid yet, coupon accrual start date.

DCC=360/k

2.3.9 Information on the new issue

UNIBANK's nominal bonds are issued according to the Bank's Board resolution from 16 April 2018. By the decision of the Bank's Board it is stipulated that early redemption/early buyback and repayment of bonds by UNIBANK OJSC are not envisaged. Under the Board resolution, the general conditions, including the repayment terms, will be determined.

2.3.10 Description of restrictions on bonds free circulation.

No restrictions on bonds issue and investors are envisaged by the issuer's charter or the issuer's Board resolution. After bonds placement, within possible short period of time, Bank shall apply to "Nasdaq OMX Armenia" OJSC for bond listing. Bond listing application might not be admitted by "Nasdaq OMX Armenia" OJSC. After getting admission to listing and trading, the Bank's bonds cannot be traded beyond the regulated market, excluding the cases stipulated by the legal acts of the Central Bank of RA. Application for trading might not be admitted and thereon the Bank declares the placement void.

In case bond placement becomes void, the funds gathered during the placement period are to be redeemed to investors within 10 working days after the date of becoming void. The redemption is made via transferring the funds to the relevant accounts indicated by the clients in the purchase application. In case of funds redemption, no interest is accrued.

2.4 Taxation of income from bonds.

The investor in bonds can get money from:

- Interest on bonds
- Capital gain

The yield on bonds issued from the Bank is taxable for profit tax (legal entities) and income tax (for individuals)

The profit tax in the Republic of Armenia is paid by the residents of the Republic of Armenia and non-residents (organizations created in foreign countries as well as international organizations and legal entity created by the latter outside the Republic of Armenia). The object of taxation is the taxable profit received from Armenian sources. Taxable profit is the positive difference between gross income of the taxpayer and deductions defined by the law of RA "On profit tax". The amount of the profit tax in respect to the taxable profit is calculated by rate of 20 percent. For non-resident organizations taxable profit is calculated by a different interest rate. Thus if a non-resident receives passive income from the Armenian sources (interest, additional increase of capital, etc), his tax agent must withhold profit tax by rate of 10 percent.

In the Republic of Armenia income taxpayers are resident and non-resident individuals of the Republic of Armenia. A resident is considered an individual that, during any twelve month period starting or ending in a tax year has been residing in the Republic of Armenia for a total duration of 183 days or more, or whose center of vital interests is in the Republic of Armenia, as well as an individual in the civil service of the Republic of Armenia who is temporarily working outside the territory of the Republic of Armenia. Taxable income is the positive difference between the gross income of a taxpayer and the deductions made pursuant to the provisions of the law of RA "On income tax". Coupon yield is taxable by rate of 10 percent. For bond redemption the Bank is tax agent for individuals.

The taxation rules of bond income are the same for non-resident individuals.

For resident and non-resident individuals as well as non-resident legal entities the Bank is a tax agent.

2.5 Offer period and terms

2.5.1 Total issue volumes

Securities quantity:	200,000 USD; 100,000 AMD
Securities nominal value:	100 USD; 10.000 AMD
Total securities nominal value:	20mn USD; 1bn AMD

2.5.2 Bond placement date is subject to Bank's Board Resolution. Payment for bond purchase must be made within the day of submitting each application for bond purchase.

Payment for bond purchase is considered to be duly made from the moment of depositing funds to bank account 24100336438700 opened by the Bank for USD and 24100336627500 opened by the Bank for AMD.

Persons submitting application for bond purchase must be notified that in case their application is not admitted or is partially admitted, keeping the funds paid for the bonds purchase on the special account till the moment of their return under the bonds issue terms, is not considered to be illegal keeping of funds or an avoidance to pay, and no interest is accrued on them.

If the payment for bonds purchase is made via banking transfer, the investors must bear expenses related to possible banking commissions.

Applications of the investors, who did not make the relevant payment within the specified term after submitting application for bond purchase, are considered void.

To make the payment for the purchase of bonds in the quantity mentioned in the application for bonds purchase, it is necessary to deposit funds to the transit account preliminarily opened in "Unibank" OJSC.

Persons who wish to purchase bonds can get the Prospectus at the Bank and its branches (principal office – N 1-5, N 53, Charents str. 12, Kentron community, Yerevan, RA) or on the web-site of the Bank at www.unibank.am

2.5.3 According to the law of RA "On securities market" the Bank does not envisage cases and circumstances in which bonds offering as well as bonds placement might be void or prolonged.

2.5.4 Subscription is not envisaged. To purchase bonds investors shall fill in and duly deliver to the Bank the relevant application for bonds purchase assuring of their willingness to accept the bonds issue terms and these provisions become mandatory for the investors. After filling in an application for bonds purchase but not later than 16:00 of the same working day the person who wants to buy a bond must make the payment to the transit account preliminarily opened in “Unibank” OJSC for the relevant quantity of bonds indicated in the application form. The issuer shall transfer the bonds to the investors' accounts within one working day after the relevant funds are accepted.

Applications for bonds purchase, received after the envisaged placement date, shall not be admitted.

Application for bonds purchase is considered to be duly submitted if it is delivered by one of the following means of communications (or delivered on hands by visiting the Bank principal office) and receipt confirmation is received from the addressee).

Address: N 1-5, N 53, Charents str. 12, Kentron community, Yerevan, RA

Treasury, “Unibank” OJSC

Or by e-mail: broker@unibank.am

The application form for bonds purchase by legal entities and individuals is in Annex 1 to the Prospectus.

Individuals and/or legal entities who want to participate in bonds purchase can submit an application for purchasing more than one bond.

To purchase bonds individuals and/or legal entities fill in the mandatory fields of application to ensure the validity of the application.

Bonds placement shall be executed in accordance with applications for bonds purchase and in order of priority of receiving payment, i.e. the priority has the application the payment for which was deposited on the transit account earlier.

According to the placement procedure, partial admission of any application for bonds purchase is not envisaged.

Applications for purchase by the investors, who did not make the relevant payment till 16:00 of the same working day, are considered to be invalid and do not participate at the placement.

The minimum volume of bonds purchase is limited to 1,000 USD for bonds in USD and 1 mln AMD for bonds in AMD

The results of placement of the Bank's nominal bonds are published on the Bank's web site at www.unibank.am within 30 days after the placement end.

Pre-emption right to buy bonds within the placement period is not envisaged.

The offering is made for individuals and legal entities including qualified and institutional investors. The Bank has no information about participation volume of the Bank's shareholders or management.

2.6 Price of offering

2.6.1 The nominal value of the bonds issued by the UNIBANK Board is USD 100, with a minimum quantity of 10, and for AMD bonds - AMD 10,000, with a minimum amount of AMD 1,000,000.
2.6.2 During and after the placement the bond price is determined using the following formula:

t=DSN

DCC

DP – bond price

DSN - actual number of days from the settlement day to the following coupon day, based on the relevant day count convention,

DCC – actual number of days in a respective coupon period calculated from the previous coupon day to the following coupon day, based on the relevant day count convention,

f – coupon frequency (f=4 for quarterly coupon payments),

N – number of remaining coupon payments after the settlement date,

Y – yield to maturity,

C – annual coupon on nominal value of 100.

Not later than 3 days before the placement date the Bank shall publish the placement value on its website, calculated using the above-mentioned formula – for the whole placement period, by days.

2.7 Placement plan

2.7.1 The Bank is the executor of issued bonds placement. No underwriters exist, and no underwriting agreement has been effected.

2.7.2. Payment for the bonds purchase is made to account 24100336438700 opened in “Unibank” OJSC for USD and 24100336627500 opened in “Unibank” OJSC for AMD.

2.7.3 For registration and accounting of bonds relevant accounts are opened in the Central Depository of Armenia and any specialized lender licensed by CB RA via opening and servicing account for the bonds owner.

2.8 Bond trading permissions and arrangement of trading

2.8.1 After bonds placement, to trade bonds on regulated market the Bank shall apply to “Nasdaq OMX Armenia” OJSC to get permission to trade the placed bonds on the regulated market. For offering bonds trade permission shall be requested. Request for trade permission might not be admitted.

2.8.2. The Bank shall conclude an agreement on market making services with “Armenbrok” OJSC (address: Tigran Mets ave. 32/1, 0018 Yerevan, RA) to help develop a secondary market. The major obligations of market maker shall be stipulated in the services agreement to be concluded with the latter. Bonds are quoted in “Nasdaq OMX Armenia” OJSC by the market maker.

2.9 Additional information

2.9.1 Consultants. During the preparation of this Prospectus, the Issuer did not use the services of other Consultants.

2.9.2. Expert opinion and third-party information: The issuer has no applied any third-party expertise or consulting services. The information provided in this Prospectus has not been complied with by an independent audit partner apart from historical financial statements.

2.9.3 The issued bonds have not been rated. However International rating agency Moody's Investors Service confirmed in August, 2017, the rating of "Unibank" and B2 foreign currency long-term deposits, leaving the forecast "stable".

SECTION 3. INFORMATION ON THE ISSUER

3.1 The Bank's Auditors

Information on the independent auditor

Since 2009, the financial audit work at the Bank has been carried out by Grant Thornton CJSC Audit Company, the Armenian member of Grant Thornton International.

Address: 8/1 Vagharshyan St, Yerevan 0012, RA;

Tel.: +374 (10) 260 964, 260 976,

Fax: +374 (10) 260 961,

E-mail: www.gta.am

Director-shareholder: Gagik Gyulbudaghyan

3.2 Risk Factors

Overview

Risk management is one of the most important functions of Unibank's management. Risk management in Unibank prevents and minimises potential losses of the Bank. The main goal of the risk management department is to ensure that the Bank keeps its risks at the level set out in the Bank's strategic plan whilst maximising its return on capital.

Principles of risk management

The risk management of Unibank is based on the guidelines issued by the Committee on Banking Supervision of the Bank for International Settlements (Basel Committee on Banking Supervision), Generally Accepted Risk Principles (GARP) and on laws of Armenia and CBA regulations. Risk is managed through on-going identification, measurement and monitoring of risks, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities.

The Bank fosters a culture that increases the level of risk management related knowledge across the Bank, in particular by sending employees on seminars and training courses.

Risk management framework

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

Risk management includes:

- achieving an optimal ratio of risk acceptable level and development strategy;

- Improving decision-making on detected risks, increasing accountability;

- assessment of risk interactions;

- calculation and evaluation of equity capital;

- Inclusion of risks into the price by applying a new loan pricing model.

The Bank applies the mechanisms for ensuring the reliability of the lending process:

- collaborative decision making on crediting,
- careful study of credit applications,
- definition of control over targeted use of credit resources,
- securing obligations under high liquid assets (collateral).

In order to minimize possible losses and risks, the Bank gives priority to crediting customers. Using the information obtained from the CBA Database, the Bank also lends to customers who have a positive history of their credit liabilities in the banking system.

While lending to large enterprises, the Bank maintains a conservative policy, largely distributing assets in relatively low risk areas in short and medium terms. To this end, the Bank periodically performs analysis of economic branches. Loans are usually provided to organizations that have their current account in the Bank. By analyzing the customer's cash flows, the Bank will make a decision about providing a loan.

The Bank sees effective Risk Management in effective management and planning, risk disclosure and measurement of assets and liabilities, and implementing preventive measures in line with identified risks. To that end, the Bank continues to manage all balance sheets, forecast their daily monitoring, set limits for active and passive transactions in line with risks in the bank, periodically analyze risky processes and offer appropriate solutions.

In terms of credit risk management, the Bank seeks to form an effective loan portfolio by combining risk-yield indicators, to which the Bank seeks to increase the loan portfolio diversification index, to confirm credit lines / instruments / limits that are presented in the Bank's investment policy plan as well as continue to improve the lending process.

The risk management system's goal is to support the Bank at the level of common risk that may arise during its operations, which has been accepted by the Bank within its strategic objectives. The primary challenge of the risk management system is to maximize the integrity of the bank's assets and capital and minimize all risks inherent to banking activities that can lead to unforeseen losses.

The risk management system is guided by a coordinated approach aimed at achieving its goal of addressing the following issues:

- to identify and analyze all risks arising during banking activities;
- stipulate risk appetite for the different risks;
- carry out qualitative and /or quantitative assessments of each type of risk;

- Complete and complex analysis of risk level for already implemented and planned transactions with a view to determining the total / total amount of bank risks;
- Assess the acceptable amount and justification of the cumulative / total risks.

The Risk Management Policy of the Bank is governed by the RA legislation, normative acts, regulations of the CBA, relevant documents of the Basel Committee, Common Risks Management /Generally Accepted Risk Principles – GARP/: Taking into account the of the nature and extent of the banking activity and its volume, the Bank pays special attention to the following important risks:

- Credit risk
- Interest rate risk
- Currency risk
- Liquidity risk
- Operational risk

Credit risk

The Bank is exposed to credit risk, which represents the risk that the Bank will incur financial damage as a result of non-performance of its obligations. Failure to fulfill contractual obligations by the bank's borrowers can have a significant impact on the bank's business and cause additional expenses that will have a negative impact on the bank's profit.

Due to its normal lending activities, Bank undertakes credit risk; the risk that a counterparty will fail to fulfil its obligations towards the Bank. The failure by the Bank's borrowers to meet their contractual obligations may materially affect the Bank's activities and have a negative impact on the Bank's profits. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. There is also credit risk in off-balance sheet financial instruments, such as credit commitments and obligations arising from related security (collateral, warranty, guarantee, etc.) agreements. Credit risk management and control are centralized in the credit risk management team of Bank's Strategy and Risk Management Department and the Loan Department and are reported to the Board of Bank and the Executive Board.

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

The credit portfolio of "Unibank" OJSC is quite diversified and it is devoid of large concentrations. The dominant crediting directions are retail crediting and SME crediting. Nevertheless, there are non-performing loans in the Bank's portfolio which may bring to potential losses.
According to the risk analysis the credit portfolio of the Bank has the following structure as of 31.03.2018:

Thousands AMD

Assets	Performing assets	Non Performing assets	
	Low Risk	Medium Risk	High Risk

Loans, including			
Residents of RA	86,650,525	5,436,689	52,286,902
Residents of CIS countries	10,781,655		2,588,955
Total	97,432,180	5,436,689	54,875,857

At the same time the indices characterizing the credit risk are as follows.

Loan reserve fund/total loans = 3.85 %

Non-performing loans/total loans = 38.24%

Reserve fund for non-performing loans/total equity = 23.24%

Special reserve for potential loan losses/non-performing loans = 10.06%

Income coverage ratio (net operating income + expenses for loan loss provision)/net loss of loans= 267.15%

Risk-weighted net interest margin = 2.31%

The Bank regulates the levels of the credit risk by setting limits on one borrower or group of related borrowers as well as by sphere and geographic concentration.
Such risks are periodically controlled and their management is subject to a review yearly or more frequently. According to the types of products, the credit risk limits of the branches of the economy and countries are confirmed and revised by the Board of the Bank if necessary.
The credit risk is also managed through periodic analysis of borrowers' and potential borrowers' ability to pay both principal and interest and making changes in credit limits if needed.
In order to minimize interest rates, the Bank finds it expedient to continue to work with fixed interest rates, which enables it to effectively manage the pricing issue of assets and liabilities. At the same time, the Bank sets limits on interest rate risk to interest rate sensitive assets and liabilities gaps.
FX risk restrains the management of foreign currency positions (both gross and net) on market behavior predictions. In order to minimize the risk, the Bank manages asset and liability management policies that enable foreign currency liabilities to be matched to the maximum in foreign currency assets.
Based on certain situations in the market, analyzing the monetary policy of the Central Bank, the Bank does not rule out derivative transactions for hedging or trading purposes in the least risky areas, by examining the financial position of its partners in accordance with the criteria set out in the relevant internal regulations of the Bank.

Interest rate risk

Interest risk arises due to abrupt changes of market interest rates. Almost all the assets and liabilities of the Bank have fixed rates. However, even in this case there may still arise risks connected with maturity mismatch between assets and liabilities. To estimate the interest rate risk GAP analysis and duration method has been used. To minimize the mentioned risks the Bank applies a relevant pricing policy.

Currency risk

Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. To estimate the currency risk GAP analysis, as well as other stress tests have been used to enable the influence estimation of the currency risk on the Bank's profitability and economic normatives.

Foreign exchange risk may arise as a result of abrupt fluctuations in exchange rates. The FX risk in the Bank is on quite a low level as the Bank conducts restraint policy and does not generally have open foreign exchange positions.

Liquidity risk

Liquidity is the ability of the Bank to fulfil its financial and other obligations on time and in full, and the Liquidity risk is the possible losses that can arise as a result of the insolvency of the bank in its full capacity.
Liquidity risk arises from the discrepancy of the bank's financial assets and liabilities flows and / or unforeseen circumstances (shock) as a result of the Bank's immediate and loyalty obligations.
For liquidity management, the bank follows the following principles:
- liquidity management on a daily basis and on a continuing basis;
- clear division of rights, obligations and responsibilities between the subdivisions of the bank;
- establishment of liquidity level limits, adequate to the scope and specifications of the Bank.

In order to manage liquidity risk, special attention is paid to the use of stress tests when evaluating the influence of unexpected / preterm / outflows of funds attracted by the bank on the liquidity normatives of the Bank.

Operational risk

Operational risk is the likelihood of external factors, internal processes, systems and human factors, which may have a negative impact on the bank's profit and / or capital.
The Bank achieves operational risk management objectives and issues using the following methods and principles:
The "Three Protective Line" model includes the three main levels:
1. Direct responsibility of the employees for their operational risk management,
2. Risk management and control functions / Risk Management Directorate, Internal Audit /
3. Strategic Risk Management / Executive Board and Board of the Bank/.

For effective operational risk management, the Bank applies the following key principles:

- Effective introduction of revealing, analysing, classifying and monitoring of operational risk
- Introduction of limits;
- Introduction of competences and decision-making systems;
- Introduction of technological system,
- Implementation of an effective control system.

The financial market of Armenia is characterized by a high degree of direct exposure to the consequences of the fiscal and monetary policies pursued by the state. Nevertheless, the market is sufficiently large and has a very serious potential for investment and development of new tools. It should also be noted that the financial market of Armenia needs the diversification of yields and maturities to the long-term and less risky financial assets.

3.3 Information on the issuer

Issuer's history and developments

Unibank was incorporated on 9 October 2001 as a closed joint-stock company (Registration Certificate No. 0373 and Registration number 81 approved by CBA Board decision No. 260 dated 9 October 2001. According to a decision by the Bank's General Meeting on 12 March 2015, the Bank was reorganized into an open joint-stock company.

Full name of the Bank:

in Armenian – «ՅՈՒՆԻԲԱՆԿ» ԲԱՑ ԲԱԺՆԵՏԻՐԱԿԱՆ ԸՆԿԵՐՈՒԹՅՈՒՆ

in Russian – ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "ЮНИБАНК"

in English – "UNIBANK" OPEN JOINT STOCK COMPANY

Short name of the Bank:

in Armenian - «ՅՈՒՆԻԲԱՆԿ» ԲԲԸ

in Russian - ОАО"ЮНИБАНК"

in English - "UNIBANK" OJSC

The Bank is regulated in Armenia according to its laws and conducts its business under General License No. 81, granted on 10 October 2001, by the CBA. According to a decision taken at the Bank's Extraordinary General Shareholders Meeting on 12 March 2015, the Bank was reorganized into an open joint-stock company.

Unibank's head office is in Yerevan. The Bank has 46 branches making it the fourth largest bank in Armenia by number of branches. It has 26 branches in Yerevan, 18 in the other regions of Armenia and two in the Republic of Nagorno Karabakh. The Bank also operates a representative office in Moscow, Russia. The registered office of the Bank is 12/53 Charents Street, #1-5, Yerevan. Contact information:

Tel: +374 (10) 52-22-59; 59-55-55

Fax: + 374 (10) 55-51-40

Email: unibank@unibank.am

Website: www.unibank.am

Unibank is the registered owner of the following trademark:

Registration date: 7 August 2002

Registration is valid until 30 November 2021

Registration number: 6906

Unibank is major Unistream bank transfer agent in Armenia.

Unibank is an integral part of the Armenian banking network with a solid reputation and a strong market presence. Over the past 17 years the Bank has built a strong brand in Armenia and has become one of Armenia's leading banks.

Significant Events

In 2002, Unibank provided its customers access to the Unistream money transfer system, which is one of the leading money transfer systems in Armenia.

In 2003 Unibank became a member of local ArCa payment system.

In 2004 Unibank became a member of Visa International.

In 2005 Unibank launched a large-scale lending programme through mortgages and car loans, taking first and second place respectively among Armenian banks.

In 2006, Unibank became a member of the International Fund for Agricultural Development (IFAD) programme to promote investment in rural areas, and participated in the SMEDNC project to develop small and medium sized enterprises.

In 2007 Unibank increased its authorized capital by AMD 5,599 million and ABN AMRO Bank's risk management programme was introduced.

In 2008 Unibank become a member of Armenian NASDAQ OMX stock exchange.

In 2008 the Bank developed a new version of its automated banking system with an on-line centralized database for all its branches. The Bank's head office moved to Charents Street where it installed a new server room and implemented new IT technologies and hardware which included setting up its own processing centre and a centralized operational service system.

In 2009 Unibank' network of affiliates were joined by a common database. At present all Bank branches work online.

On 3 June 2010 Moody's international rating agency assigned Unibank financial stability E+ rating, Ba3 long-term rating for foreign currency and national currency deposits and a NP short-term rating. All of the ratings have a stability forecast.

In 2011 Unibank began a trade financing project with the Asian Development Bank to provide companies with letters of credit and bank guarantees. In 2011 Unistream, the international money transfers system launched a new loyalty card for its clients, which has increased the efficiency of money transfers, considerably shortening customer servicing times and enabling the customer to trace the status of transfers online.

In 2012 Thomson Reuters awarded Unibank "Best Dealing Bank of 2012". At the end of 2012 the Bank finalized the process to launch its own card processing centre which was certified by Visa International on January 2013.The Bank began using the Salesforce.com platform, based on cloud technologies, to manage the origination and relationship management on its consumer credit programme.

In 2013 the Bank participated in the tender to manage the Loan Guarantee Fund programme set up by USAID. It has also signed a cooperation agreement with IFC and Black Sea and Trade Development Bank, whereby IFC has provided the Bank with two loans of USD 5 million, and Black Sea and Trade Development Bank has provided the Bank with a USD 5 million loan. The loans are to be used to expand the SME and trade finance activities of the Bank. IFC, through its Bank Advisory Program in Europe and Central Asia, also supports Unibank with advisory services aimed at improving the Bank's risk management and SME credit processes. The cooperation with international financial institutions has helped the Bank build its SME lending business, which in turn has helped SME enterprises in Armenia to grow, thereby leading to the creation of new jobs.

In 2014 Unibank began cooperation with Intel Express, the international money transfer system. It also introduced ISO 27001:2013 information security standards and set up its Unibank Privé private banking system.

On 12 March 2015, according to a decision taken at the Bank's Extraordinary General Shareholders Meeting, the Bank was reorganized into an open joint-stock company.

Unibank, as a member of Unistream money transfer system, also carries out money transfer operations. Unibank was the only Unistream agent in Armenia by 2012, with more than 50% of all remittances received in Armenia. In order to strengthen its market position, since 2012, Unibank has started offering its services through other Armenian banks. In 2014 Unibank launched an international money transfer system with Intel Express.
For the fast and efficient realization of the utility payments Bank clients are provided to UNIPAY utility payment cards free of charge.

"Unibank" OJSC German-Armenian fund together with German KfW bank has launched a new crediting program for Small and Medium Enterprises directed to raise energy efficiency of enterprises in Armenia. The participants have the ability to get not just business loans with profitable conditions but also reduce the costs for energy for the company.

Unibank was recognized the Partner of the Year at 'Banks of the Future' International Conference held in December in Athens. The conference, which gathered 200 representatives of financial and banking systems of CIS, European and Asian countries, was dedicated to payment systems, money transfers and innovations.
Unibank has successfully passed PCI Data Security Standard (PCI DSS) requirements for 2016 and has been awarded the PCI DSS certificate. PCI DSS is one of the best security standards that helps improve transaction security technology.
Unibank has automated the process of providing unsecured loans to small business by starting to use a new CRM-system developed by Protobase Laboratories company. The aim of the new CRM-system is to increase the effectiveness and quality of customer service, to speed up significantly the decision-making process in providing business loans and to reduce the bank's expenses.

Unibank is the first bank in Armenia that has successfully gone through the certification process for compliance with the security standards of the SWIFT payment system. The Customer Security Controls Framework 1.0. standard contains mandatory and recommended control elements designed to improve the information and cyber security and protect information infrastructure. In order to ensure the introduction of these control elements the SWIFT has developed an appraisal process that banks need to complete before the end of December 2017.

Head office

Unibank's operations are centralised at its head office where the Bank employs staff fulfilling management, finance, accounting, legal, risk, customer services, collections, IT, property, marketing and business development, HR and administration roles.

Internal audit services

Since it began operations 17 years ago, Unibank has had its own Internal Audit team. Internal Audit is an independent unit. Its role is to conduct checks on controls, evaluate risks and submit reports to the management and staff of the Bank, as set by the shareholders and the Board of the Bank.

Internal Audit submits its reports on monthly basis to the Bank's management and quarterly at the Bank's Board meetings, covering its activities and the audit results for the period, indicating any risks it has identified and suggesting effective ways to deal with them. Internal Audit conducts checks of the internal control system of the Bank once every year.

The Head of Internal Audit reports directly to the Board and has free access to all levels of the top management of the Bank. Internal Audit conducts periodical and surprise checks in the Bank's branches performing reviews of risk management and control.

The structure of Internal Audit complies with international best practices.

Investments

a. **Essential investments**. No significant investments have been made by the Bank during the historical financial period and afterwards till the moment of submission of this Prospectus to registration.

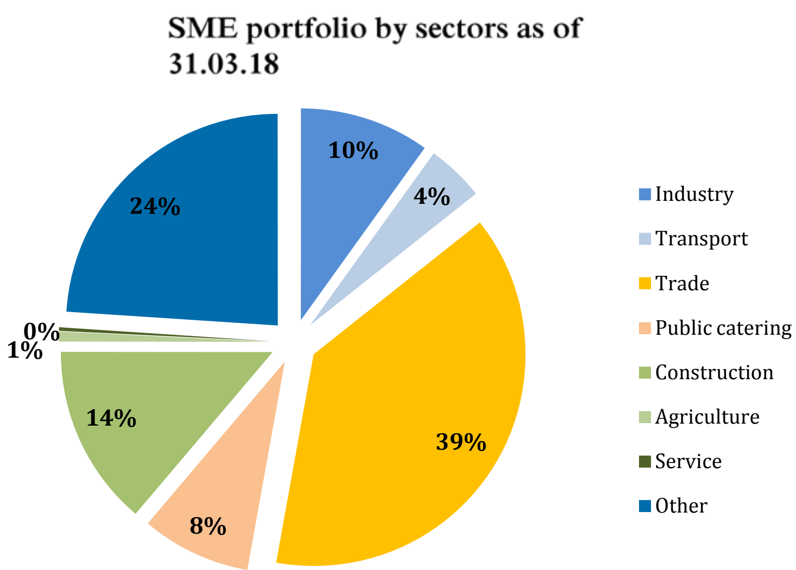
b. **Current investments**. No significant investments of the Bank are in process.

c. **Future significant investments**. No future significant investments of the Bank are planned, for the performance of which the governing bodies of the Bank have undertaken obligations.

3.4 Business Overview

Lending to small and medium businesses is one of the strategic focuses of Unibank. Banking Products offered by the Bank developed by its management and take into account Armenia's SME lending market as well as specific customer needs. As of 31 March 2018, the share of SME loans in the total loan portfolio of business loans was 44%.

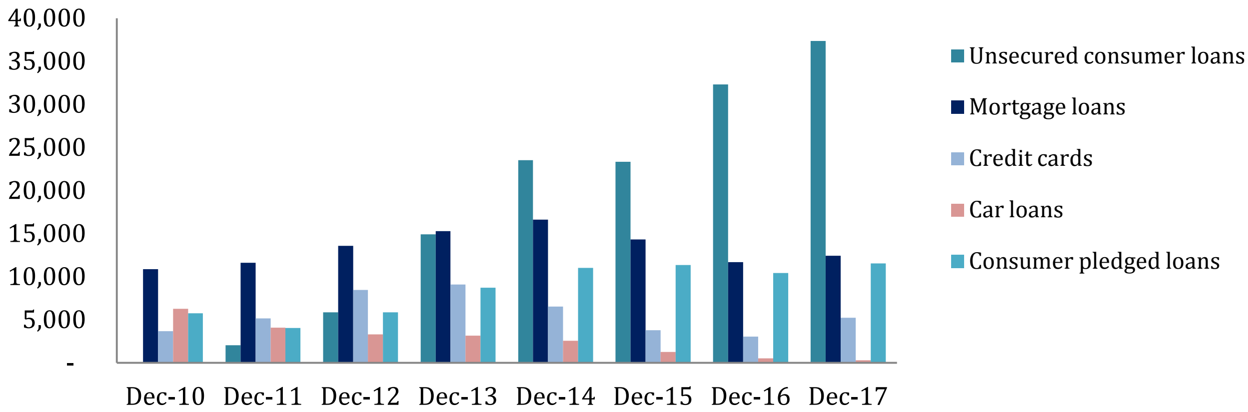
Over the past 3-4 years, the Bank has mainly focused on SME lending. As Unibank has made a conscious decision to lend to SMEs and entrepreneurs, the lending volumes to larger corporate customers have dropped. However, the Bank does not intend to stop lending to corporate clients, which now considers being an important part of its business and continues its work with these customers by offering them a wide range of banking products in all segments. The chart below shows the shares of the Bank's Business Sector in the Business Loan Portfolio as of 31.03.2018.



Unibank's strategy has strengthened its current position as a retail bank by offering its specially designed banking services through its branch network. The Bank's retail sales are organized through its own branches and through partner companies.

The growth of loans Unibank provided to individuals for the period of 2010-2017 is shown below.

Dynamics of retail loan portfolio for 2010-2017 (mln AMD)



Credit applications can be confirmed almost immediately, without the need to visit the Bank. Unibank develops other projects for developing online capabilities, such as mortgage loans, car loans and SME loans

Currently the Bank sells its services in over 600 points of sale through its own branches and partners outlets.

Products sold through partners are processed by partners, as well as promotional campaigns, expenses of which, in some cases, are also covered by partner.

The Bank has placed promo points at the premises of its partners, where employees of the Bank present the Bank’s products to potential customers.

Small consumer loans (unsecured loans)

As of 31.03.2018, the Bank's current portfolio of small consumer loans amounts to AMD 36.9 bln. The main competitors of Unibank in this sphere are Inecobank, VTB Bank Armenia, ACBA Credit Agricole Bank.

The advantages of small consumer loans to the Bank’s clients are as follows:

- Prompt receipt of the loan proceeds: the loans can be used at his/her discretion,
- Minimum requirements for the borrower: passport and social security card,
- Competitive terms in the retail loan market,
- No upfront fees or early repayment fees, allowing pre-maturity repayment.

Secured consumer loans

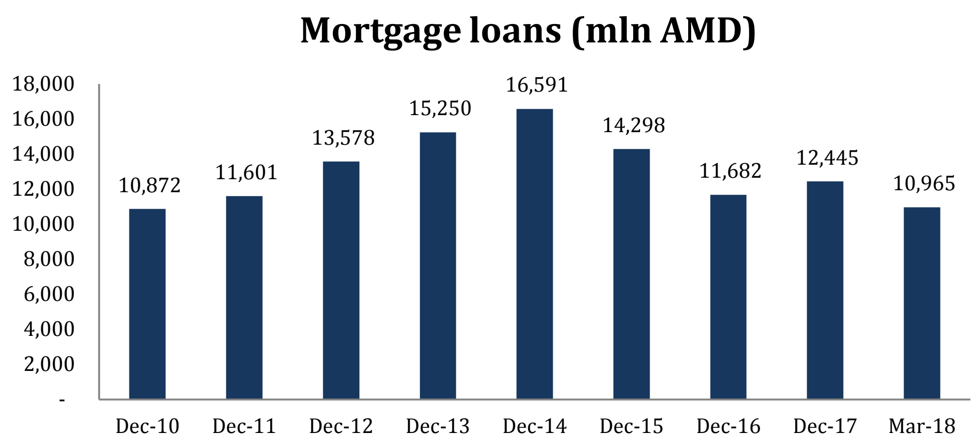
Provision of secured consumer loans started in 2007. Loans to individuals are provided against real estate collateral.

Mortgage lending

Unibank began issuing mortgage loans in 2005 and is currently considered to be one of the leaders in the mortgage market in Armenia.

As of 31.03.18, Unibank had 1,067 customers receiving mortgage loans for purchase and renovation of residential real estate and 10 clients receiving mortgage loans for purchase of non-residential real estate, totalling to AMD 10,965 million.

Growth of Unibank's Mortgage Loans from 2010 to March 2018



Mortgage loans Financing

Unibank is also cooperating with the "National Mortgage Company" CJSC as well as the "Home for Youth" CJSC organization to finance its mortgage loan portfolio.

The National Mortgage Company provides the Bank with credit lines, that allows provision of mortgage loans to its customers with competitive interest rates.

In addition to these credit facilities, Unibank also finances its mortgage loan portfolio at the expense of capital and deposits.

Unibank also offers mortgage loans for purchase of residential or business real estate on the primary and secondary market without prepayment, instead, the borrower pledges additional real estate.

Taking into consideration high demand for mortgage loans without prepayment, Unibank also announces a special offer within the framework of which you can get apartments in the newly-built multi-apartment building located on14 Lvovyan in Yerevan on preferential terms.

Credit cards

Unibank attracts its credit card customers through advertising and through its partners. Prospective customers fill out a simple application form on www.unibank.am and once completed online they are informed of a preliminary decision via a text message following an automated underwriting process.

Unibank's underwriting process is fully automated. Its risk management process includes credit history checks from ARCA and its scoring model was developed together with Protobase Laboratories.

Unibank also offers its credit card customers the opportunity to hold positive balances on their cards on which they can earn attractive rates of interest of up to 3% on AMD balances, 3% on USD balances and 3% on € balances.

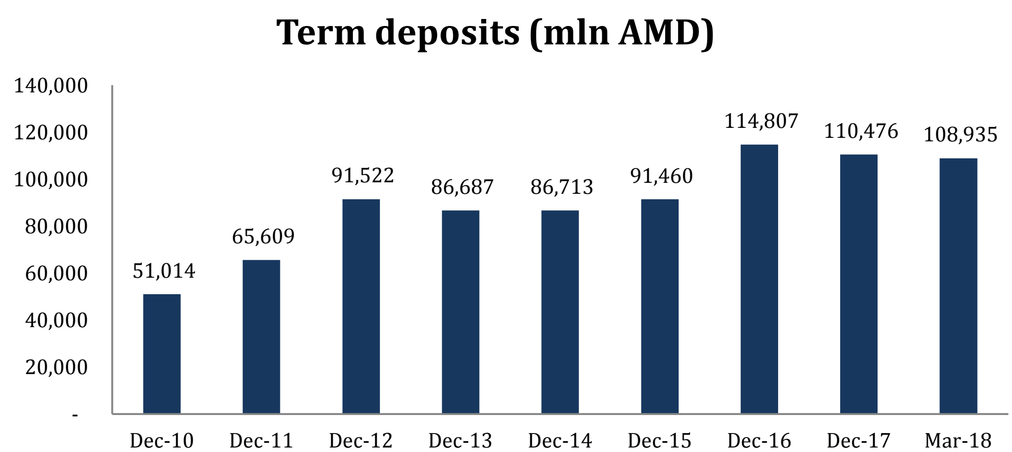
Gold secured loans

Starting from August 2015 Bank has realizes granting of gold secured loans, which is implemented in 19 branches of Unibank.

Customer deposits

Unibank attracts deposits both from individuals and legal entities through its wide branch network, by promotions and advertising on the internet and through traditional media channels. Unibank is one of the market leaders in attracting both short-term and long-term deposits; currently the Bank holds AMD 114 billion in term deposits and AMD 22 billion in demand deposits.

Unibank Deposit Portfolio from 2010 to March 2018



Other Services

Unistream money transfer system

Unistream is a money transfer system which provides transfers worldwide without the need for a client to open a bank account. Unibank is an agent of Unistream, thus, offers customers its money transferring and cash receiving at its branches. Unibank also offers its customers a Unistream card so that customers can receive and transfer money by phone without having to visit a branch. Unibank makes money transfers in USD, EUR, and Russian Roubles (RUB). Remitted sums are paid in AMD, USD, EUR, and RUB. In other countries the remitted sum is paid in the currency determined by the laws of the given country.

In 2017 Unibank's customers have made AMD 51 bln (USD 105.4 mln) worth of transfers through Unistream system, providing Unibank with AMD 125 mln profit.

In order to strengthen its market position, Unistream started offering its services through other Armenian banks as well.

Unibank Privé

Unibank expands its customers' opportunities and offers individual service in the field of private banking, Unibank Privé. Within Privé framework, the customer service is provided at the highest level, in a modern, comfortable office located in the centre of Yerevan.

Unibank Privé offers financial solutions to customers with a certain status and income level including a structured approach to capital management, effective financial planning as well as development of a tailored investment strategy. Unibank Privé clients may contact and make an appointment with an individual financial manager, who will assist in any situation at all stages of service at any time convenient to the client. Confidentiality and security of all operations is guaranteed.

Apart from the complex package of banking services, Unibank Privé clients get a range of additional opportunities and services including a Priority Pass card giving clients access to over 900 VIP lounges in 120 international airports throughout the world, enabling the customer to conveniently wait for his flight. For advantageous roaming, the Bank also provides with a free travel SIM card for fast and high quality traffic during travel.

Securities dealing

In terms of securities, the Bank mainly allocates its funds on RA Government (Treasury) Bonds and RA Eurobonds. These tools enable the Bank to obtain stable returns at any time by providing the necessary cash.
It is preferable for the Bank to maintain the 90-95% of the government bonds portfolio in the state long-term bonds. In case of excess liquidity, the Bank plans to purchase government short-term bonds.
Investments in short-term bonds are made in accordance with the obligations arising from the Dealer's Operations Contract, as well as by more profitable placement of the short-term surplus. Long-term bonds are expected to be sold later in case of a profitable interest rate.
Taking into account the above mentioned advantages, the Bank intends to invest 7-7.5% of its assets in the Armenian government bonds.

Based on certain situations in the market, the Bank analyzes the policies of the CBA and the Ministry of Finance in relation to the valuation or impairment of AMD, performing derivative or trading purposes in less risky fields, by examining the financial position of the partners in accordance with the criteria set out in the relevant internal regulations of the Bank.

In the case of the latter, the Bank will adopt a framework for derivative transactions.
Swap operations will be conditioned by the Bank's Cash Management Facility as well as expectations for revenue.
Being aware of the relatively more favourable terms for some of the services offered by competitor banks, the Bank tries to combine its offer in different fields with the favourable conditions of other services and to present them in a complex way to help clients orientate them.

Bank' fixed assets

Unibank has the right of ownership of the real estate located on Kievyan 10, 8/63, city Yerevan, Armenia, the balanced value of which is about 10.71% of the Bank's total fixed assets balanced value.

3.5 Latest prospects of development

It is expected that macroeconomic situation in Armenia will be characterized by economic growth over the coming years. The key sectors of the economy that contribute to GDP growth are agriculture, mining, food processing and IT. Based on the above, it is expected that the growth rate of Unibank will be dynamic, asset quality will be improved, interest rates will remain stable, with a certain decline.

The indices of the Bank in the crediting sphere were formed within the dominant trends of the economy of RA, experience in the crediting market and the investment policy of the Bank. Within choosing of crediting segment the Bank considered the following criteria: legal entities with successful business, stable and predictable monthly receipts; individuals with middle and high income.

The retail business portfolio increased by 8,839 million drams or 15% compared to the previous year, conditioned by active provision of consumer secured loans and card loans. Mortgage portfolio increased by 763 million drams or 7% compared to the previous year. Consumer loans increased by AMD 5,025 million or 16%, the plan was realized by 96%, including the consumer loan portfolio that has increased by 3,140 million drams or 20%.

Consumer secured loans increased by 1,184 million drams or by 12%, the car loan portfolio decreased by 209 million drams or by 41%, which is conditioned by the fact that car loans were restored in the second half of the year. The volume of card loans has increased by 71% totalling to 5,223 million drams. Gold pledged consumer loans decreased by 89 million drams or by 9%.

2017 term deposit portfolio of individuals decreased by 683 million drams, while the dollar deposit portfolio decreased by 3.373 million drams, which can be explained by issuance of new bonds. By the end of the year the deposit portfolio of individuals made 90.8bln AMD, the portfolio of legal entities - 27.5bln AMD.

Performance of the planned income and expense indicators are shown below:

	Forecast for 31.12.17 (thousand AMD)	Factual performance 31.12.17 (thousand AMD)	Deviation from the plan (thousand AMD)	Performacne%
Interest income	19,463,266	18,394,111	-1,069,155	95%
Interest expense	12,862,044	12,138,692	-723,352	94%
Net Interest income	**6,601,222**	**6,255,419**	**-345,803**	**95%**
Non interest income	6,700,766	7,052,912	352,146	105%

Non Interest expense	6,689,037	6,676,481	-12,556	100%
Net Non interest income	**11,728**	**376,431**	**364,703**	**3210%**
Net deductions	5,740,764	6,195,531	454,767	108%
Net profit	**581,549**	**279,343**	**-302,206**	**48%**

The bank's profit after profit tax in the reporting year equalled to 279 million drams.
2016 interest income amounted to 18.381 million drams, and in 2017 - 18.394 million drams, interest income grew by 13.6 million drams. Regardless of the fact that the loan portfolio has increased by 14.5 billion drams since the beginning of the year, minor/slight growth in interest income is due to the reduction of interest rates on credit instruments and with the increase in the volumes of loans with a 0 percentage. Revenues from these instruments are generated from commission payments.
Non-interest income equalled to 5,373 million drams by 2016 and 7,053 million drams in 2017, an increase of 31% was registered, mainly due to the increase in commission income by 1,141 million drams or by 28%, while the revenues from Unistream remittances decreased by 20% or 14%, which is conditioned by a 13% decrease in the amount of Unistream money transfers.

There is a slight change in the volumes of money transfers, which is conditioned by the similar volumes of international non-profit transfers of individuals received through the bank. Net inflows in this sector have increased by $ 15 million in the reporting year to $ 731 million from $ 716 million last year.
Foreign exchange revenues in 2016 equalled to 594.5 million drams, and in 2017 - 601.5 million drams (an increase of AMD 7 million), which is conditioned by a small increase in the volume of money transfers. Non-interest expenses amounted to 99.8% of the plan.

From 2018 to 2020 the Bank intends to focus on its activities as follows:

- Increase retail business lending, as well as in lending to small and medium-sized businesses,
- Enhancing oversight of the loan portfolio through constant monitoring (and regular review of the status of pledged assets and meeting with customers),
- Increase in deposit portfolio,
- Expand the list of plastic card operations,
- Increase on money transfers,
- Implement out foreign exchange operations in branches,
- Increase the list and quality of services provided to its clients,
- Improve the quality of services,
- Increase commissions and fees,
- Involve in international lending programmes,
- Ensure the compliance of internal procedures of the Bank with the internal acts

The main objectives of the Bank in the first year of planning are:

Increase in the volume of assets and liabilities by 193 and 160 billion drams, the growth of the loan portfolio by 13.4 billion drams (the priority task is to increase the share of profitable assets in total assets), with growth of business portfolio by 7 billion drams or by 11.7%, retail business portfolio growth by AMD 6.4 billion or 9.6%, the non-retained earnings will make 931 million drams by the end of 2018. At the same time it is necessary to carry out the following tasks:

- issue and place bonds in foreign currency and in Armenian drams;
- increase participation in international lending programs;
- increase service quality;
- guarantee principles of corporate governance;
- improve internal control systems and internal regulations.

The planned period, with the Bank's conviction, will be marked by certain changes in the banking system that will have its impact on the type of expansion and quality improvement of the services provided.

3.6 HR Management Review

Unibank focuses on ensuring effective and transparent corporate governance aimed at implementing international best practices. The Banks' corporate governance policy is designed to ensure the independence of the Board, its ability to effectively supervise the management and to maintain good relations with shareholders.

Unibank is committed to ensure compliance with high international standards of corporate governance, the application of high quality banking technologies and services. For better corporate governance the Bank has developed and introduced 143 procedures, as well as norms and directives ensuring the implementation of such procedures. Corporate governance in the Bank is regulated by Armenian legislation, in particular by the "Law on Banks and Banking Activities" and the "Law on Joint Stock Companies", as well the charter and internal legal regulations of the Bank ensuring transparent accountability at all the levels of management.

Corporate governance guidelines are adopted by the Board of the Bank. Compliance with the guidelines is closely controlled by the Internal Audit as well as various committees under the Board and Executive Board within the limits of their competency.

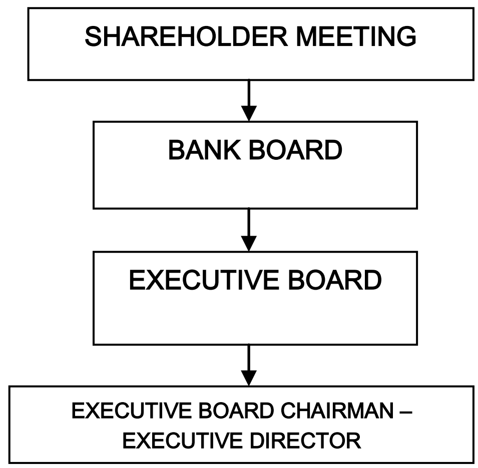
Unibank seeks to establish a corporate governance culture which will lead to the success of the Bank through regular staff training, corporate events, and establishing common goals in line with the mission of the Bank. Both the Board and Executive Board are supported by committees which make recommendations on matters delegated to them, in particular in relation to internal control, risk, financial reporting, and remuneration matters. This enables the management to spend a greater proportion of its time on strategic, forward-looking agenda items. The committees include Board members, Executive Board members and other relevant managers of the Bank. Committees are consultative.

The committees with direct reporting to the Board are - Audit and Risks Committee, the Investment Committee and the Remuneration committee.

The committees reporting to the Executive Board are the Tariff Committee, the Assets and Liabilities Committee, the Branch Network Management Committee, the Business Evaluation Committee, the Security Committee, the Inventory, Procurement and Disposal Committee, the Personnel Management Committee, the Personnel Evaluation Committee and the Credit Committee.

a. Structure of the Governing Bodies

The Bank's governing bodies operate in the following manner:



The information on the governing bodies has been presented in the Articles of Association of the Bank, attached to the Program Prospectus.

b. Committees Attached to the Board

Audit and Risk Committee

Chairman	Board Member
Member	Board Chairman
Member	Board Member
Member	Board Member
Observer	Head of Internal Audit
Secretary	Head of Bank Apparatus

The task of the Committee is to assist the Board in corporate governance and control connected with compliance with internal and external audit, internal control structure and risk management structure, legal regulations. Meetings are held at a minimum twice a year.

Investment Committee

Chairman	Board Member
Member	Board Chairman
Member	Board Member
Member	Board Member
Member	Board Member
Secretary	Head of Bank Apparatus

The Committee executes functions on making resolutions on reserves and investments and control on implementation, as well as discussion of issues and financial analysis concerning the current coordination of investment activity.

Remuneration Committee

Chairman	Board Member
Member	Board Chairman
Member	Board Member
Member	Board Member
Secretary	Head of Bank Apparatus

The committee's functions are improvement of HR policies of the Bank, making suggestions concerning HR policies to the Board and development of motivational and remuneration schemes for the Bank personnel.

c. Committees Attached to the Executive Board

The committees under the Executive Board are: the Tariff Assets and Liabilities Committee, Security and IT Security Committee, Inventory, Procurement and Disposal Committee, Disciplinary Committee, Credit Committee, Reserve Committee.

Tariff and Assets and Liabilities Committee Operations/Functions

The Tariff and Assets and Liabilities Committee defines the types of tariffs for the services provided by the Bank, the principles of definition and review of tariffs and rates and the definition of general and individual tariffs. In the case of a deviation from the agreed tariffs, any proposal is submitted for final approval of Executive Board after it is discussed and approved by the Committee. This Committee also coordinates the management of the Bank's assets and liabilities, focussing on the Bank's liquidity requirements, the target structure of Bank's liabilities and maturity margins, interest rates and interest rate margins and customer acquisition targets.

Security and IT Security Committee Operations/Functions

- Coordinate the Bank's security and IT Security, and ensure that legal requirements regarding security are in place and operate efficiently;
- Other issues related to security including internal discipline;
- Organize the process of the Bank's IT and security of information;
- Analyse and approve the IT and information policy, distributing general responsibilities;
- Discuss the principal risks of IT and information resources;
- Approve the main approaches aimed at providing IT and information security.

Inventory, Procurement and Disposal Committee Operations/Functions

The recommendations on the following issues may be submitted for discussion by the Committee:

- Amendments to the annual budget; monthly, quarterly, semi-annual;
- Amendments to expenditure items;
- Amendments to the amounts under expenditure items;
- Amendments to the programmes, including the involvement of new programmes such as the procurement and disposal of the Bank's real estate assets;
- Other issues related to inventory management, procurement or disposal functions that may arise from time to time but are not specifically mentioned above.

Personnel Evaluation Committee

- Evaluation of the current activity of subdivisions and employees in accordance with planned targets approved by the Board;
- Disciplinary discussions and decision making;
- Evaluation of the qualifications as well as performance of the employees in respect of positions taken.

- Notification of the Executive Board in the case of identifying violations of the current regulations that arise during the evaluation of personnel;
- Recommendations and proposition of actions on business development and business process improvement;

Credit Committee

- Implementation and development of Bank lending policy;
- Management of banking risks;
- Effective and efficient organization and implementation of the Bank's lending procedures within its competencies.

Reserve Committee

The main objective of the Reserve committee is to mitigate the risks that may arise regarding loan repayments by the Bank's borrowers, re-evaluation and classification of these assets and advising on the levels of reserves that the bank should make in relation to its loan assets in accordance with guidelines provided by the CBA.

a. Board Members

Rights and responsibilities of the Board are stipulated in the Bank's Charter.

Name and Surname of the governing body member	Address	Position	Management member activity outside of the Bank	Positions in companies or organizations held by a member of the management body of the issuer throughout the five years preceding the registration of the prospectus
Gagik Zakaryan	Narodnogo Opolcheniya street 38/1, flat 40, Moscow, RF	Board Chairman	2006 - present "Unistream" OJSC Chairman of the Board of Directors, Board member of the Russian Union of Banks Member of the Supervisory Board of National Banking Journal, RF "RESO" Insurance CJSC Board Chairman	From 2004 to 2015 -"Uniastrum Bank" Commercial Bank president, RF
George Piskov	Frunzenskaya Embankment 36, flat 425, 119146 Moscow, RF	Board member	2006 - present "Unistream" OJSC Board of Directors member, Protobase Laboratories LLC Board Chairman	2004 - August 2015 - "Uniastrum Bank" Commercial Bank Board of Directors Chairman, RF
Vardan Atayan	Komitas 62, flat 6, Yerevan, Armenia	Board member	03.03.2008 – present "Unileasing" Credit Company CJSC Board Chairman ("Unileasing " CJSC shareholder of 1%)	24.09.2001- 06.11.2017 – "Unibank" OJSC Executive Board Chairman 22.09.2008 - 06.11.2017 - "RESO" Insurance CJSC Board member 03.03.2008 - present "Unileasing" Credit Company CJSC Board Chairman ("Unileasing " CJSC shareholder of 1%) 31.07.2006 - 06.11.2017 – Union of Banks of Armenia Board member

				21.12.2007 - 06.11.2017 - ACRA Credit Company Board member
Artem Konstandyan	Makarevskogo street 5, flat 28, Moscow, RF	Board member	Member of the Presidium in the OPORA of Russia, Member of the Board of Directors of the Russian Agency for Export and Investment Insurance, Member of the Supervisory Board of the MSP Bank.	01.02.2018 - 01.07.2018 “Unibank” OJSC, Advisor to Board Chairman 2012-2018 “Ardshinbank” CJSC, Board member 2010-2016 “Promsyazbank” OJSC, Executive Board Chairman
David Papazian	Baghramyan 1/1, flat 30, Yerevan, Armenia	Board member	General director of Armenian National Interests Fund, an independent Board Member of “Unibank” OJSC (Armenia)	2009 - 2016 Management of HNW capital principal 2009 - 2014 Innqva, Moscow & Luxembourg, Member of Board of Directors
Eduard Zamanyan	Snayperskaya street 12, Moscow, RF	Board member	N/A	2014 – present - “Unistream” OJSC Member of Board of Directors
Hrahat Arzumanyan	Bolshaya Ordinka street 51, flat 3, Moscow, RF	Board member	N/A	2014 - present - “Transstroybank” Chairman of the Board of Directors
Mesrop Hakobyan	Tamanyan 1a, flt 13, Yerevan, Armenia	Executive Board Chairman	03.03.2008 - present “Unileasing”Credit Company CJSC Board member (“Unileasing” CJSC shareholder of 1%) Union of Banks of Armenia Board member ACRA Credit Company Board member	2014 - 2017 “Unibank” OJSC, Deputy Chairman of the Executive Board - Director of Operational Service and Information Systems, 2012 - 2014 “Unibank” CJSC, Deputy Chairman of the Executive Board - Information Technology and Innovation Director
Ararat Ghukasyan	Norq Marash, 6th street, 1st lane, 5th	1st Vice Chairman of the	Trustees of the National Laboratory in the name of A. Alikhanyan Board member	2015 - 2017 "Unibank" OJSC - Board member 2010 - 2015 Byblos Bank Armenia – General

	house, Yerevan, Armenia	Executive Board	29.07.2015 - present “Unileasing” CJSC Board member	Executive Director
Gohar Gasparyan	Komitas 35, flat 26, Yerevan, Armenia	Financial Director - Chief Accountant, Board member	03.03.2008 – present “Uniholding” CJSC Board member	2013 - 2015 “Unibank” OJSC, Chief Accountant, Board member 2007 – 2013 “Unibank”CJSC, Financial Director - Chief Accountant, Executive Board member
Ovsanna Arakelyan	Sevan street 2/4, flat 15, Abovyan, Armenia	Vice-Chairman of the Executive Board, Legal Service and Overdue Liabilities Collection Director	“RESO” Insurance CJSC Board member “Unileasing”Credit Company CJSC Board member, “Williams Incorporation” LLC. director, “Poligrafia” CJSC director, “Jivan Gasparyan” Cultural Charitable Foundation Director	2011 – 2014 “Unibank” CJSC, Legal Department Director, Board member 2011 - 2014 Arbitrator of Financial Arbitration under the Union of Banks of Armenia
Gurgen Ghukasyan	Margaryan 13, 2nd lane, flat 6, Yerevan, Armenia	Retail Business Promotion and Sales Director, Board member	23.09.2015 – present “Uniholding” CJSC Chief Executive Officer	2013 - 2014 “Unibank” CJSC, Retail Sales Department Director 2012 - 2013 “Unibank” CJSC, Mortgage and Car Loans Department Director
David Petrosyan	Gyulbenkyan 30/3, Yerevan, Armenia	Corporate Business Promotion and Sales Director, Board member	N/A	2012 - 2014 "Unibank" CJSC, Corporate Sales Department Director

During the 5 years preceding the date of filing the Prospectus for registration none of the members of the Board and the Executive Board have been convicted of fraud.

During the 5 years preceding the date of filing the Prospectus for registration the members of the Issuer's governing bodies have not been involved in any bankruptcy, liquidation or administration proceedings nor has any been declared bankrupt.

During the 5 years preceding the date of filing the Prospectus for registration, the members of the Issuer's governing bodies have not been held liable by any state regulatory (oversight) authority, nor have they been deprived by the court of the right to hold the position as a member of the Issuer's governing bodies.

There is no conflict of interest between the obligations of the Issuer's Board and Executive Board members towards the Issuer and each board member's personal interests.

There exist no arrangements with any of the major shareholders, customers, suppliers or other persons, by virtue of which any person has been elected or appointed as a member of the Issuer's governing body.

Members of the Bank's governing bodies have not received any sums from the Bank's subsidiaries as remuneration or a bonus.

Members of the Bank's governing bodies have not entered into any agreements with the Bank or its subsidiary companies under which they will receive bonus payments upon expiry of their tenure.

There are no family relations between the members of the Bank's governing bodies.

Employees

At 31 December 2017 the Bank had a total of 785 employees, including 5 Board members and 7 Executive Board members. All employees are full time. Unibank does not have any temporary employees.

Gagik Zakaryan (Chairman of the Board) and George Piskov (Director) each indirectly control 43.9% of the current ordinary shares and 50% of preferred shares of the Bank.

Information on the availability of shares belonging to each member of the governing body of the bank and options for those securities, each class of securities belonging to each of them, the number, percentage, total, etc.

Name, Surname, Father’s name	Position	Participation in the Bank’s statutory capital
Mesrop Hakobyan	Executive Board Chairman - CEO	0.0027%
Ararat Ghukasyan	First Vice-Chairman of the Executive Board	-0.0082 %
Gohar Grigoryan	Financial Director - Chief Accountant	0.0027%
David Petrosyan	Corporate Business Promotion and Sales Director	0.0027%
Gurgen Ghukasyan	Retail Business Promotion and Sales Director	0.0041%

Incentive Arrangements

The Bank’s management believes that an important factor in the Bank’s success is its ability to motivate its employees and that its motivation scheme will continue to support the Bank’s business strategy in the future.

Employees are motivated through a number of bonus schemes introduced for different levels of employee.

All bonuses are made at the discretion of the Personnel Evaluation Committee.

Significant shareholders

The main shareholder of the Bank is Uniholding GG Limited (87.8%), a company registered in Nikosia with its office located at Patmou 5B, Aglatzia, P.C. 2013, Nikosia, Cyprus, comprising 147,805,227 common shares, each with a par value of AMD 100 and 32,010,000 preference shares, each with a par value of AMD 100.The rest of the company’s ordinary nominal shareholders are 5 legal entities and 173 individuals.

The Bank is indirectly controlled by the following persons:

Georgi Piskov (passport 45 01 597016 issued on 28 December 2001 by 772-110, Moscow, RF; residential address: 36 Frunzenskaya Naberezhnaya St., Apt. 425, Moscow 119146, RF), who indirectly controls 42.8% of the ordinary shares and 50% of the preferred shares of Unibank OJSC;

Gagik Zakaryan (passport 51N3886787 issued on 11.01.2008 by 772-110, Moscow, RF; residential address: 38 Narodnogo Opolcheniya St., Bldg. 1, Apt. 40, Moscow, RF), who indirectly controls 42.8% % of ordinary shares and 50% of the preferred shares of Unibank OJSC.

Tax privileges

The Bank enjoys no tax privileges

Judicial and legal procedures

No decision/judicial act has been adopted and enforced against the Bank by the court and government authorities for the recent 12 months.

Bankruptcy or liquidation proceeding has not been initiated against the Bank for the recent 12 month.

Significant Agreements

No significant agreements concluded beyond the regular business scopes of the Bank.

Consultants. During the preparation of this Prospectus, the Issuer did not use the services of other Consultants.

Expert opinion and third-party information: The issuer has no applied any third-party expertise or consulting services. The information provided in this Prospectus has not been complied with by an independent audit partner apart from historical financial statements.

The issued bonds have not been rated. However International rating agency Moody's Investors Service confirmed in August, 2017, the rating of "Unibank" and B2 foreign currency long-term deposits, leaving the forecast "stable".

3.8 Other information

The charter, interim and annual financial statements of the Bank and audit reports ar made accessible electronically on the Bank's website www.unibank.am.

This Program Prospectus will be posted on the Bank's website throughout its period of use: www.unibank.am.

The investors can obtain the hard copies of the Program Prospectus and the supporting documents free of charge at the Head office of the Bank: 12 Charents St., #53, 1-5, Yerevan, RA

APPENDIX 2.

Sample Buy order for Coupon Bonds issued by Unibank OJSC

Թողարկվող պարտատոմսերի վերաբերյալ համառոտ տեղեկատվություն
Brief Summary of Shares Issued

Թողարկող **Issuer**	**Յունիբանկ ԲԲԸ** **UNIBANK ԳJSC**
Թողարկման արժույթը **Currency qf denominatiqn**	
Թողարկման ծավալը **Issue volume**	
Պարտատոմսի ԱՄՏԾ **BOND ISIN**	

Ներդրողի վերաբերյալ տեղեկություններ
Investqr Infqrmatiqn

Անուն, ազգանուն (անվանում) **Full name (Company name)**	
Անձնագրի (գրանցման) տվյալներ **Passport (Registration) details**	
Բնակության (Իրավաբանական) հասցեն **Residence (Legal) address**	
Կապի միջոցները (հեռ., ֆաքս, էլ. փոստ)	

Contact details (tel., facsimile, e-mail)	
Արժեթղթերի հաշվի համարը **Securities account details**	
Դոլարային հաշվեհամարը **USD account details**	
Դրամային հաշվեհամարը **AMD account details**	

Գնման պատվերի վերաբերյալ տեղեկություններ
Subscription Information

Պարտատոմսերի քանակը **Number of shares**	
Գործարքի ծավալը **Transaction volume**	
Գործարքի գին ***Transactiqn Price***	

Ես՝ ներքոստորագրյալս, ստորագրելով սույն փաստաթուղթը, տեղեկացնում եմ, որ.

I, the undersigned, hereby affirm and acknowledge that:

1. Ծանոթացել եմ Յունիբանկ ԲԲԸ պարտատոմսերի թողարկման ազդագրին:
   I have read the entire Prospectus of "UNIBANK" OJSC.

2. Լիովին գիտակցում եմ սույն պարտատոմսերում ներդրումների հետ կապված ռիսկերը:
   I fully understand the risks associated with the investment in the offered shares.

Ներդրող (լիազոր անձ)

Investor (authorized person)

______________________________ ______________________

անուն, ազգանուն / full name ստորագրություն / signature

APPENDIX 3.

1.General information (The data not applicable are marked "Inapplicable"). Where securities with different basic terms (currency of issue, price of offer, par value, et.) are issued under the same series, the different terms are stated separately for each group of securities meeting a specific term)		
1. 1	Issuer (Issuer's name)	UNIBANK OJSC
1.2	Underwriter	Not planned
1.3	Series (number and date of consequential issue based on the program prospectus; e.g. 2016-1 for the 1st issue in 2016)	Series 2, 2018
1.4	Total value of particular series of issue	
1.5	Details of securities classification from the perspective of sequence of redemption (subordination), including total value per issue of particular series by subordination	
1.6	Currency of issue	
1.7	Price of offer	
1.8	Par value	
1.9	Quantity	
1.10	Starting date of offer (including any change)	
1.11	End date of offer	

	(including any change)	
1.12	International Securities Identification Number (ISIN) or other identification code	
1.13	Bond issuance and placement decision-making authority and date of decision (to be stated only if a separate decision is made for the particular IPO, otherwise is marked “Inapplicable”)	
2. Coupon details		
2.1	First day of coupon calculation	
2.2	Coupon interest rate and payment frequency; upon floating interest rate, state on what indicator (change of indicator) the interest rate depends on, and where the indicator/change can be obtained	
2.3	Dates of coupon payment (day, month, year)	
2.4	Calculation of coupon days (e.g. 30/360, Act/Act, Act/360, etc.)	
2.5	Calculation of floating coupon	
2.6	Other essential terms for coupon calculation	
2.7	Provision on securities with 0% coupon (discount coupon) (“Applicable” or “Inapplicable”)	
3.Details of principal		
3.1	Redemption (partial redemption) date	

3.2	Redemption (partial redemption) value; unless possible, calculation method is stated	
3.3	Change in redemption value (cases where redemption value can be changed)	
3.4	Early redemption on Issuer's initiative/ Call Option ("Applicable" or "Inapplicable")	
3.4.1	Date(s)	
3.4.2	Option price, method of calculation (if any)	
3.4.3	Upon partial redemption, min and max redemption values	
3.4.4	Other details	
3.5	Early redemption on investor's initiative/ Put Option ("Applicable" or "Inapplicable")	
3.5.1	Date(s)	
3.5.2	Option price, method of calculation (if any)	
3.5.3	Other information (notification period)	
4. Placement details		
4.1	Issuer's name, location	
4.2	Other terms of placement (not included in the prospectus)	
5. Other information		
5.1	Admission to trading on regulated	

	market for particular class of securities (respective regulated markets, date of admission)	
5.2	If admission to trading of offered securities on regulated market is to be requested in future, information about the market (name, also a provision that the admission to trading may be declined, expected date of admission (if possible))	
5.3	Securities rating	
5.4	Methods (frequency, bank accounts, etc.) and dates of payment against securities, and methods and dates of receiving securities, method of receiving excerpt of securities ownership	

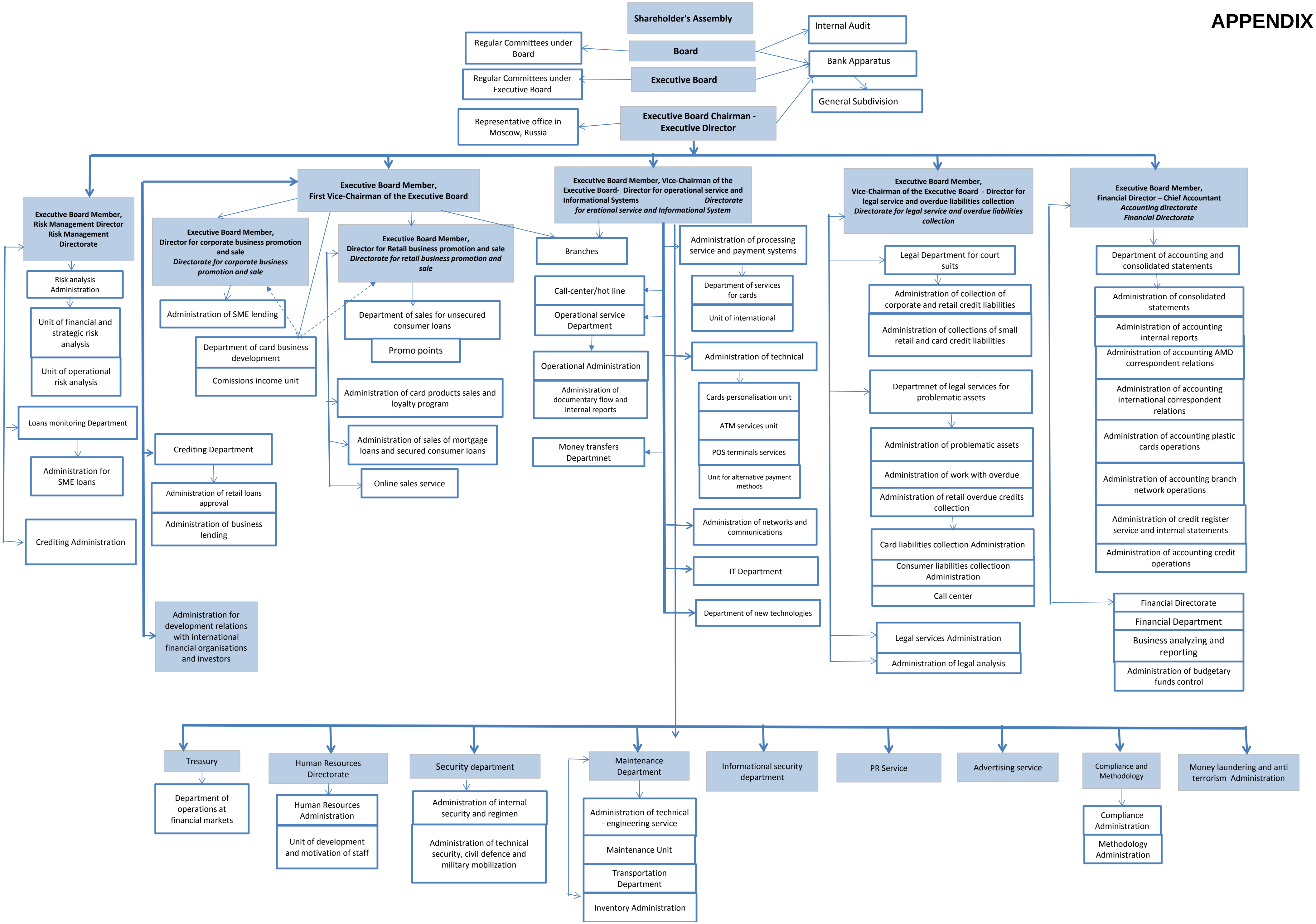
The Issuer is responsible for the information included in the Final Issuance Terms. The Issuer(the Underwriter) assures that the information included herein corresponds to the information (general methodology) included in the Program Prospectus and amendments thereto, and the information is accurate (to the best of their knowledge), and no fact has been omitted or misrepresented.

Signatories

Gagik Zakaryan	**Board Chairman**	(signature)	(date)
George Piskov	**Board member**	(signature)	(date)
Hrahat Arzumanyan	**Board member**	(signature)	(date)
Eduard Zamanyan	**Board member**	(signature)	(date)
David Papazian	**Board member**	(signature)	(date)
Vardan Atayan	**Board member**	(signature)	(date)
Artem Konstandyan	**Board member**	(signature)	(date)
Mesrop Hakobyan	**Executive Board Chairman - CEO**	(signature)	(date)
Ararat Ghukasyan	**First Vice-Chairman of the Executive Board**	(signature)	(date)
Tigran Badanyan	**Risk Management Director**	(signature)	(date)
Gohar Grigoryan	**Financial Director - Chief Accountant**	(signature)	(date)
Gurgen Ghukasyan	**Retail Business Promotion and Sales Director**	(signature)	(date)
Ovsanna Arakelyan	**Vice-Chairman of the Executive Board, Legal Service and Overdue Liabilities Collection Director**	(signature)	(date)
David Petrosyan	**Corporate Business Promotion and Sales Director**	(signature)	(date)

The Bank's audited annual financial statements for 2015, 2016 and 2017, as well as quarterly statements for 31.03.2018 and 30.06.2018.

APPENDIX 1.


Shareholder's Assembly
Board
Executive Board
Executive Board Chairman - Executive Director
Regular Committees under Board
Regular Committees under Executive Board
Representative office in Moscow, Russia
Internal Audit
Bank Apparatus
General Subdivision
Executive Board Member, Risk Management Director Risk Management Directorate
Risk analysis Administration
Unit of financial and strategic risk analysis
Unit of operational risk analysis
Loans monitoring Department
Administration for SME loans
Crediting Administration
Executive Board Member, First Vice-Chairman of the Executive Board
Executive Board Member, Director for corporate business promotion and sale Directorate for corporate business promotion and sale
Administration of SME lending
Department of card business development
Comissions income unit
Crediting Department
Administration of retail loans approval
Administration of business lending
Administration for development relations with international financial organisations and investors
Executive Board Member, Director for Retail business promotion and sale Directorate for retail business promotion and sale
Department of sales for unsecured consumer loans
Promo points
Administration of card products sales and loyalty program
Administration of sales of mortgage loans and secured consumer loans
Online sales service
Executive Board Member, Vice-Chairman of the Executive Board- Director for operational service and Informational Systems Directorate for erational service and Informational System
Branches
Call-center/hot line
Operational service Department
Operational Administration
Administration of documentary flow and internal reports
Money transfers Departmnet
Administration of processing service and payment systems
Department of services for cards
Unit of international
Administration of technical
Cards personalisation unit
ATM services unit
POS terminals services
Unit for alternative payment methods
Administration of networks and communications
IT Department
Department of new technologies
Executive Board Member, Vice-Chairman of the Executive Board - Director for legal service and overdue liabilities collection Directorate for legal service and overdue liabilities collection
Legal Department for court suits
Administration of collection of corporate and retail credit liabilities
Administration of collections of small retail and card credit liabilities
Departmnet of legal services for problematic assets
Administration of problematic assets
Administration of work with overdue
Administration of retail overdue credits collection
Card liabilities collection Administration
Consumer liabilities collectioon Administration
Call center
Legal services Administration
Administration of legal analysis
Executive Board Member, Financial Director – Chief Accountant Accounting directorate Financial Directorate
Department of accounting and consolidated statements
Administration of consolidated statements
Administration of accounting internal reports
Administration of accounting AMD correspondent relations
Administration of accounting international correspondent relations
Administration of accounting plastic cards operations
Administration of accounting branch network operations
Administration of credit register service and internal statements
Administration of accounting credit operations
Financial Directorate
Financial Department
Business analyzing and reporting
Administration of budgetary funds control
Treasury
Department of operations at financial markets
Human Resources Directorate
Human Resources Administration
Unit of development and motivation of staff
Security department
Administration of internal security and regimen
Administration of technical security, civil defence and military mobilization
Maintenance Department
Administration of technical - engineering service
Maintenance Unit
Transportation Department
Inventory Administration
Informational security department
PR Service
Advertising service
Compliance and Methodology
Compliance Administration
Methodology Administration
Money laundering and anti terrorism Administration

APPENDIX 2.

Sample Buy order for Coupon Bonds issued by Unibank OJSC

Թողարկվող պարտատոմսերի վերաբերյալ համառոտ տեղեկատվություն
Brief Summary of Shares Issued

Թողարկող **Issuer**	**Յունիբանկ ԲԲԸ** **UNIBANK ԳJSC**
Թողարկման արժույթը **Currency qf denominatiqn**	
Թողարկման ծավալը **Issue volume**	
Պարտատոմսի ԱՄՏԾ **BOND ISIN**	

Ներդրողի վերաբերյալ տեղեկություններ
Investqr Infqrmatiqn

Անուն, ազգանուն (անվանում) **Full name (Company name)**	
Անձնագրի (գրանցման) տվյալներ **Passport (Registration) details**	
Բնակության (Իրավաբանական) հասցեն **Residence (Legal) address**	
Կապի միջոցները (հեռ., ֆաքս, էլ. փոստ)	

Contact details (tel., facsimile, e-mail)	
Արժեթղթերի հաշվի համարը **Securities account details**	
Դոլարային հաշվեհամարը **USD account details**	
Դրամային հաշվեհամարը **AMD account details**	

Գնման պատվերի վերաբերյալ տեղեկություններ
Subscription Information

Պարտատոմսերի քանակը **Number of shares**	
Գործարքի ծավալը **Transaction volume**	
Գործարքի գին ***Transactiqn Price***	

Ես՝ ներքոստորագրյալս, ստորագրելով սույն փաստաթուղթը, տեղեկացնում եմ, որ.

I, the undersigned, hereby affirm and acknowledge that:

1. Ծանոթացել եմ Յունիբանկ ԲԲԸ պարտատոմսերի թողարկման ազդագրին:
   I have read the entire Prospectus of "UNIBANK" OJSC.

2. Լիովին գիտակցում եմ սույն պարտատոմսերում ներդրումների հետ կապված ռիսկերը:
   I fully understand the risks associated with the investment in the offered shares.

Ներդրող (լիազոր անձ)

Investor (authorized person)

______________________	______________
անուն, ազգանուն / full name	ստորագրություն / signature

APPENDIX 3.

1.General information (The data not applicable are marked "Inapplicable"). Where securities with different basic terms (currency of issue, price of offer, par value, et.) are issued under the same series, the different terms are stated separately for each group of securities meeting a specific term)		
1. 1	Issuer (Issuer's name)	UNIBANK OJSC
1.2	Underwriter	Not planned
1.3	Series (number and date of consequential issue based on the program prospectus; e.g. 2016-1 for the 1st issue in 2016)	Series 2, 2018
1.4	Total value of particular series of issue	
1.5	Details of securities classification from the perspective of sequence of redemption (subordination), including total value per issue of particular series by subordination	
1.6	Currency of issue	
1.7	Price of offer	
1.8	Par value	
1.9	Quantity	
1.10	Starting date of offer (including any change)	
1.11	End date of offer	

	(including any change)	
1.12	International Securities Identification Number (ISIN) or other identification code	
1.13	Bond issuance and placement decision-making authority and date of decision (to be stated only if a separate decision is made for the particular IPO, otherwise is marked "Inapplicable")	
2. Coupon details		
2.1	First day of coupon calculation	
2.2	Coupon interest rate and payment frequency; upon floating interest rate, state on what indicator (change of indicator) the interest rate depends on, and where the indicator/change can be obtained	
2.3	Dates of coupon payment (day, month, year)	
2.4	Calculation of coupon days (e.g. 30/360, Act/Act, Act/360, etc.)	
2.5	Calculation of floating coupon	
2.6	Other essential terms for coupon calculation	
2.7	Provision on securities with 0% coupon (discount coupon) ("Applicable" or "Inapplicable")	
3.Details of principal		
3.1	Redemption (partial redemption) date	

3.2	Redemption (partial redemption) value; unless possible, calculation method is stated	
3.3	Change in redemption value (cases where redemption value can be changed)	
3.4	Early redemption on Issuer's initiative/ Call Option ("Applicable" or "Inapplicable")	
3.4.1	Date(s)	
3.4.2	Option price, method of calculation (if any)	
3.4.3	Upon partial redemption, min and max redemption values	
3.4.4	Other details	
3.5	Early redemption on investor's initiative/ Put Option ("Applicable" or "Inapplicable")	
3.5.1	Date(s)	
3.5.2	Option price, method of calculation (if any)	
3.5.3	Other information (notification period)	
4. Placement details		
4.1	Issuer's name, location	
4.2	Other terms of placement (not included in the prospectus)	
5. Other information		
5.1	Admission to trading on regulated	

	market for particular class of securities (respective regulated markets, date of admission)	
5.2	If admission to trading of offered securities on regulated market is to be requested in future, information about the market (name, also a provision that the admission to trading may be declined, expected date of admission (if possible))	
5.3	Securities rating	
5.4	Methods (frequency, bank accounts, etc.) and dates of payment against securities, and methods and dates of receiving securities, method of receiving excerpt of securities ownership	

The Issuer is responsible for the information included in the Final Issuance Terms. The Issuer(the Underwriter) assures that the information included herein corresponds to the information (general methodology) included in the Program Prospectus and amendments thereto, and the information is accurate (to the best of their knowledge), and no fact has been omitted or misrepresented.

Signatories

Gagik Zakaryan	**Board Chairman**	(signature)	(date)
George Piskov	**Board member**	(signature)	(date)
Hrahat Arzumanyan	**Board member**	(signature)	(date)
Eduard Zamanyan	**Board member**	(signature)	(date)
David Papazian	**Board member**	(signature)	(date)
Vardan Atayan	**Board member**	(signature)	(date)
Artem Konstandyan	**Board member**	(signature)	(date)
Mesrop Hakobyan	**Executive Board Chairman - CEO**	(signature)	(date)
Ararat Ghukasyan	**First Vice-Chairman of the Executive Board**	(signature)	(date)
Tigran Badanyan	**Risk Management Director**	(signature)	(date)
Gohar Grigoryan	**Financial Director - Chief Accountant**	(signature)	(date)
Gurgen Ghukasyan	**Retail Business Promotion and Sales Director**	(signature)	(date)
Ovsanna Arakelyan	**Vice-Chairman of the Executive Board, Legal Service and Overdue Liabilities Collection Director**	(signature)	(date)
David Petrosyan	**Corporate Business Promotion and Sales Director**	(signature)	(date)

The Bank's audited annual financial statements for 2015, 2016 and 2017, as well as quarterly statements for 31.03.2018 and 30.06.2018.

Financial Statements and Independent Auditor's Report

UNIBANK open joint stock company

31 December 2015

Contents

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք. Երեւան 0012
Վաղարշյան 8/1

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Ֆ.+ 374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan str.
0012 Yerevan, Armenia

T + 374 10 260 964
F + 374 10 260 961

www.grantthornton.am

To the Shareholder and Board of Directors of Open Joint Stock Company "UNIBANK":

We have audited the accompanying financial statements of "UNIBANK" open joint stock company (the "Bank"), which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the "UNIBANK" open joint stock company as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to note 34 to the financial statements. Financial statements of the Bank have been prepared based on the Bank's going concern principle. In 2014 the Board of RA Central Bank decided to determine the minimum size of total capital AMD 30,000,000 thousand as of January 1, 2017 and after that period. The shareholders and management of the Bank assure that the Bank will ensure the implementation of the mentioned requirement through the replenishment of equity. Our opinion is not qualified due to this matter.

Gagik Gyulbudaghyan
Managing partner

Zaruhi Gharibyan
Audit Manager

Grant Thornton CJSC
April 8, 2016
Yerevan

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2015**	Year ended December 31, 2014
Interest and similar income	6	**19,714,397**	19,316,864
Interest and similar expense	6	**(13,431,362)**	(12,025,942)
Net interest income		**6,283,035**	7,290,922
Fee and commission income	7	**1,334,902**	1,455,759
Fee and commission expense	7	**(257,701)**	(287,433)
Net fee and commission income		**1,077,201**	1,168,326
Net trading income	8	**677,989**	746,151
Net loss from investments available-for-sale		**-**	(855)
Other income	9	**1,383,757**	1,645,630
Impairment charge	10	**(2,398,395)**	(4,106,633)
Staff costs	11	**(3,070,810)**	(3,272,711)
Depreciation of property and equipment	19	**(412,952)**	(377,221)
Amortization of intangible assets	20	**(80,796)**	(73,084)
Other expenses	12	**(2,912,720)**	(2,393,969)
Profit before income tax		**546,309**	626,556
Income tax expense	13	**(187,828)**	(94,081)
Profit for the year		**358,481**	532,475
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**45,782**	-
Income tax relating to items not reclassified		**(9,157)**	-
		36,625	-
Items that will be reclassified subsequently to profit or loss			
Net unrealized loss from changes in fair value from available-for-sale financial assets		**(468,167)**	(578,132)
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments		**-**	871
Income tax relating to items that will be reclassified		**93,633**	115,452
		(374,534)	(461,809)
Other comprehensive income for the year, net of tax		**(337,909)**	(461,809)
Total comprehensive income for the year		**20,572**	70,666
Earnings per share	14	**0.00157**	**-**

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Cash and cash equivalents	15	**26,012,823**	34,036,384
Amounts due from other financial institutions	16	**1,245,854**	882,221
Loans and advances to customers	17	**110,181,548**	118,960,394
Investments available for sale	18	**4,411,861**	31,923
Securities pledged under repurchase agreements	26	**4,136,760**	4,984,447
Property, plant and equipment	19	**5,165,342**	5,142,456
Intangible assets	20	**1,314,048**	1,254,782
Prepaid income taxes		**284,081**	382,262
Other assets	21	**5,387,543**	4,583,677
TOTAL ASSETS		**158,139,860**	170,258,546
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	22	**22,255,512**	32,567,529
Amounts due to customers	23	**104,170,724**	102,069,829
Borrowings	24	**7,511,491**	13,341,038
Deferred income tax liabilities	13	**731,041**	725,839
Other liabilities	25	**762,000**	1,117,462
Total liabilities		**135,430,768**	149,821,697
Equity			
Share capital	27	**14,167,947**	13,100,700
Share premium		**1,387,422**	-
Statutory general reserve		**421,851**	370,137
Other reserves		**(492,684)**	(154,775)
Retained earnings		**7,224,556**	7,120,787
Total equity		**22,709,092**	20,436,849
TOTAL LIABILITIES AND EQUITY		**158,139,860**	170,258,546

The financial statements from pages 3 to 52 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 8 April, 2016.

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Vardan ATAYAN
Chairman of Executive Board

Gohar GRIGORYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2014	13,100,700	-	370,137	(77,377)	384,411	6,972,432	20,750,303
Dividends to shareholders	-	-	-	-	-	(384,120)	(384,120)
Transactions with owners	-	-	-	-	-	(384,120)	(384,120)
Profit for the year	-	-	-	-	-	532,475	532,475
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	(52,148)	-	(52,148)
Net unrealized loss from changes in fair value	-	-	-	(578,132)	-	-	(578,132)
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments	-	-		871	-	-	871
Income tax relating to components of other comprehensive income	-	-	-	115,452	-	-	115,452
Total comprehensive income for the year	-	-	-	(461,809)	-	532,475	70,666
Balance as of December 31, 2014	13,100,700	-	370,137	(539,186)	384,411	7,120,787	20,436,849
Increase in share capital	**1,067,247**	**1,387,422**	**-**	**-**	**-**	**-**	**2,454,669**
Distribution to reserve	**-**	**-**	**51,714**	**-**	**-**	**(51,714)**	**-**
Dividends to shareholders	**-**		**-**	**-**	**-**	**(202,998)**	**(202,998)**
Transactions with owners	**1,067,247**	**1,387,422**	**51,714**	**-**	**-**	**(254,712)**	**2,251,671**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**358,481**	**358,481**
Other comprehensive income:							
Revaluation of PPE	**-**	**-**	**-**	**-**	**45,782**	**-**	**45,782**
Net unrealized loss from changes in fair value	**-**	**-**	**-**	**(468,167)**	**-**	**-**	**(468,167)**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**93,633**	**(9,157)**	**-**	**84,476**
Total comprehensive income for the year	**-**	**-**	**-**	**(374,534)**	**36,625**	**358,481**	**20,572**
Balance as of December 31, 2015	**14,167,947**	**1,387,422**	**421,851**	**(913,720)**	**421,036**	**7,224,556**	**22,709,092**

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2015	Year ended December 31, 2014
Cash flows from operating activities		
Profit before tax	**546,309**	626,556
Adjustments for		
Impairment charge	**2,398,395**	4,106,633
Impairment and loss on sale of repossessed assets	**223,174**	30,643
Reversal of impairment of PPE	**(103,881)**	-
Amortization and depreciation allowances	**493,748**	450,305
Loss from sale of PPE	**17,021**	15,763
Interest receivable	**(2,280,884)**	1,252,651
Interest payable	**495,761**	(118,376)
Foreign currency translation net gain of non-trading assets and liabilities	**(179,415)**	(790,847)
Cash flows from operating activities before changes in operating assets and liabilities	**1,610,228**	5,573,328
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**(320,892)**	490,042
Loans and advances to customers	**9,379,240**	3,741,696
Other assets	**(623,137)**	(713,108)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(826,458)**	912,909
Amounts due to customers	**1,490,851**	(10,366,793)
Other liabilities	**(62,136)**	115,695
Net cash flow used in operating activities before income tax	**10,647,696**	(246,231)
Income tax paid	**31**	(96,056)
Net cash from/(used) in operating activities	**10,647,727**	(342,287)
Cash flows from investing activities		
Purchase of investment securities	**(3,938,810)**	(175,093)
Purchase of property and equipment	**(375,118)**	(1,284,858)
Proceeds from sale of property and equipment	**71,922**	45,973
Purchase of intangible assets	**(140,062)**	(382,650)
Net cash used in investing activities	**(4,382,068)**	(1,796,628)
Cash flow from financing activities		
Proceeds from issue of share capital	**2,454,669**	-
Dividends paid	**(500,321)**	(47,621)
Loans received from/(repaid to) financial institutions	**(9,654,080)**	27,344,275
Repayment of other long-term loans and advances	**(6,292,311)**	(14,240,248)
Net cash from/(used in) financing activities	**(13,992,043)**	13,056,406
Net increase/(decrease) in cash and cash equivalents	**(7,726,384)**	10,917,491
Cash and cash equivalents at the beginning of the year	**34,036,384**	21,118,118
Exchange differences on cash and cash equivalents	**(297,177)**	2,000,775
Cash and cash equivalents at the end of the year (Note 15)	**26,012,823**	34,036,384

Supplementary information:

Interest received	**17,765,762**	20,569,515
Interest paid	**(12,935,601)**	(12,144,318)

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

On 23 June 2015 according to the Bank's license registered under number 0373, "UNIBANK" CJSC was reorganized to "UNIBANK" OJSC issuing 14,500,000 shares.

The Bank is a member of Individuals deposit compensation guarantee state system of RA , as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and it has 25 branches in Yerevan, 18 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh Republic and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

The international rating agency Moody's Investors Service approved the Bank's deposit attraction B2/NP rating, b3 base credit rating, B1(cr)/NP(cr) counterparty risk rating. Forecasts on all ratings remained unchanged, stable.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

Deterioration of economic situation of countries collaborating with the RA led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Bank. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

New standards and amendments adopted for the first time for annual periods beginning on or after 1 January 2015 are not applicable for the Bank. None of the amendments to Standards that are effective from that date had a significant effect on the Bank's financial statements.

3.5 Standards and interpretations not yet applied by the Bank

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

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

Management does not anticipate a material impact on the Bank's financial statements from these Amendments, they are presented below.

***IFRS 9 Financial Instruments* (2014)**

The IASB recently released IFRS 9 *Financial Instruments* (2014), representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Bank's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

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

- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale of Contribution of Assets between an Investor and its Associate or its Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established. According to the Tax Legislation of Republic of Armenia dividend income is non-taxable.

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

	December 31, 2015	December 31, 2014
AMD/1 US Dollar	**483.75**	474.97
AMD/1 Euro	**528.69**	577.47
AMD/1 Rub	**6.62**	8.15

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

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

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

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

The Bank classified its financial assets into the following categories:

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

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

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

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

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

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

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.8 Impairment of financial assets

The Bank assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate statement of financial position item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

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

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

4.12 Leases

Operating - Bank as leasee

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

4.13 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	60	1.67
Computers	5	20
Communication	5	20
Vehicles	7	14.3
ATM	10	10
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses.

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

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

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.15 Repossessed assets

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

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 Share capital

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Dividends paid to shareholders are payable from the profit after tax and according to the Tax legislation of RA are non-taxable

Property revaluation reserve

The property revaluation reserve is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

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

4.19 Offsetting

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

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

4.20 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 30).

Classification of investment securities

Securities owned by the Bank comprise of CBA, Armenian state and corporate bonds. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Useful Life of PPE

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

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. (see note 29).

Impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Tax legislation
Armenian tax legislation is subject to varying interpretations. Refer to Note 28.

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

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

6 Interest and similar income and expense

In thousand Armenian drams	**2015**	2014
Loans and advances to customers	**17,812,124**	17,645,652
Debt investment securities available-for-sale	**910,778**	744,265
Amounts due to financial institutions	**39,957**	126,281
Interest accrued on impaired financial assets	**951,323**	800,666
Factoring	**215**	-
Total interest and similar income	**19,714,397**	19,316,864
Amounts due to customers	**9,738,417**	8,504,548
Amounts due to financial institutions	**1,431,835**	1,142,623
Government loans	**47,348**	144,622
Repurchase transactions	**599,890**	60,419
Borrowings	**1,613,872**	2,155,651
Other interest expenses	**-**	18,079
Total interest and similar expense	**13,431,362**	12,025,942

7 Fee and commission income and expense

In thousand Armenian drams	**2015**	2014
Cash collection	**892,244**	991,500
Plastic cards operations	**189,909**	217,349
Guarantees and letters of credit	**45,133**	16,455
Foreign currency translation operations	**88,545**	133,279
Other fees and commissions	**119,071**	97,176
Total fee and commission income	**1,334,902**	1,455,759

In thousand Armenian drams	2015	2014
Wire transfer fees	**81,943**	54,257
Plastic cards operations	**143,726**	171,516
Foreign currency translation operations	**4,466**	13,014
Stock exchange services	**9,493**	10,333
Other expenses	**18,073**	38,313
Total fee and commission expense	**257,701**	287,433

8 Net trading income

In thousand Armenian drams	2015	2014
Gains less losses from transactions in foreign currencies	**724,110**	1,152,637
Gains less losses from derivatives	**(46,121)**	(406,486)
Total net trading income	**677,989**	746,151

9 Other income

In thousand Armenian drams	2015	2014
Fines and penalties received	**1,054,899**	826,476
Foreign currency translation net gains of non-trading assets and liabilities	**179,415**	790,847
Gains from operations of precious metals	**-**	10,069
Reversal of impairment of PPE	**120,003**	-
Other income	**29,440**	18,238
Total other income	**1,383,757**	1,645,630

10 Impairment charge

In thousand Armenian drams	2015	2014
Loans and advances to customers (Note 17)	**2,392,158**	4,103,318
Other assets (Note 21)	**6,237**	3,315
Total impairment charge	**2,398,395**	4,106,633

11 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	**3,069,378**	3,269,189
Staff training and other costs	**1,432**	3,522
Total staff costs	**3,070,810**	3,272,711

12 Other expenses

In thousand Armenian drams	**2015**	2014
Fixed assets maintenance	**271,418**	266,970
Advertising costs	**299,572**	186,863
Business trip expenses	**13,906**	15,344
Communications	**127,837**	126,442
Operating lease	**771,161**	768,363
Taxes, other than income tax, duties	**352,712**	300,399
Consulting and other services	**192,044**	60,467
Security	**58,654**	113,827
Representative expenses	**51,140**	37,773
Office supplies	**68,407**	80,476
Penalties paid	**1,550**	1,740
Operations with precious metals	**4,592**	-
Deposit insurance	**179,348**	175,151
Computer software maintenance	**41,001**	35,200
Cash collection services	**69,336**	71,807
Loss on impairment of PPE	**16,122**	-
Loss on disposal of PPE	**17,021**	15,763
Loss on impairment of repossessed collaterals	**183,065**	-
Loss on disposal of repossessed collaterals	**40,109**	30,643
Other expenses	**153,725**	106,741
Total other expense	**2,912,720**	2,393,969

13 Income tax expense

In thousand Armenian drams	**2015**	2014
Current tax expense	**98,150**	128,422
Deferred tax	**89,678**	(34,341)
Total income tax expense	**187,828**	94,081

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2014: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	**2015**	**Effective rate (%)**	2014	Effective rate (%)
Profit before tax	**546,309**		626,556	
Income tax at the rate of 20%	**109,262**	**20**	125,311	20
Non-taxable income	**(24,001)**	**(4)**	(22,530)	(4)
Other taxable income	**1,777**	**-**	21,073	3
Non-deductible expenses	**126,531**	**23**	49,113	8
Gains less losses from derivatives	**9,224**	**1**	81,297	13
Foreign exchange gains	**(34,965)**	**(6)**	(160,183)	(26)
Income tax expense	**187,828**	**34**	94,081	14

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2014	Recognized in profit or loss	Recognized in equity	As of December 31, 2015
Other liabilities	**63,388**	**(11,305)**	**-**	**52,083**
Securities available for sale	**135,932**	**-**	**93,633**	**229,565**
Other assets	**-**	**36,613**	**-**	**36,613**
Total deferred tax assets	**199,320**	**25,308**	**93,633**	**318,261**
Contingent liabilities	**(20,665)**	**(1,977)**	**-**	**(22,642)**
Amounts due from other financial institutions	**(8,360)**	**1,330**	**-**	**(7,030)**
Loans and advances to customers	**(806,744)**	**(115,542)**	**-**	**(922,286)**
PPE	**(89,390)**	**1,203**	**(9,157)**	**(97,344)**
Total deferred tax liability	**(925,159)**	**(114,986)**	**(9,157)**	**(1,049,302)**
Net deferred tax liability	**(725,839)**	**(89,678)**	**84,476**	**(731,041)**

In thousand Armenian drams	As of December 31, 2013	Recognized in profit or loss	Recognized in equity	As of December 31, 2014
Other liabilities	56,306	7,082	-	63,388
Securities available for sale	20,480	-	115,452	135,932
Carried forward tax losses	145,221	(145,221)	-	-
Total deferred tax assets	222,007	(138,139)	115,452	199,320
Contingent liabilities	(24,913)	4,248	-	(20,665)
Amounts due from other financial institutions	(8,450)	90	-	(8,360)
Loans and advances to customers	(972,483)	165,739	-	(806,744)
PPE	(91,793)	2,403	-	(89,390)
Total deferred tax liability	(1,097,639)	172,480	-	(925,159)
Net deferred tax liability	(875,632)	34,341	115,452	(725,839)

14 Earnings per share

In thousand Armenian drams	2015
Profit for the year	**358,481**
Dividends on preferred shares	**(202,998)**
Income less dividends on preferred shares	**155,483**
Weighted average number of ordinary shares	**99,163,757**
Earnings per share – basic	**0.00157**

15 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Cash on hand	**7,147,554**	6,775,432
Correspondent account with the CBA	**15,849,237**	23,802,559
Placements with other banks	**3,016,032**	3,458,393
Total cash and cash equivalents	**26,012,823**	34,036,384

As at 31 December 2015 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 20% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 14,289,553 thousand (2014: 2% and 20% respectively, AMD 15,084,982 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

As at 31 December 2015 the accounts in amount of AMD 2,130,517 thousand (71%) (2014: AMD 2,435,946 thousand (70%)) were due from two commercial banks.

Non-cash transactions performed by the Bank during 2015 are represented by:

- repayment of AMD 408,225 thousand loan by transfer of property rights on pledge (2014: AMD 658,906 thousand).

16 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Deposits in financial institutions	**735,854**	722,221
Deposited funds with the CBA	**510,000**	160,000
Total amounts due from other financial institutions	**1,245,854**	882,221

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

17 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans to customers	**94,018,528**	120,321,417
Overdraft	**20,736,215**	3,155,094
	114,754,743	123,476,511
Less allowances for impairment of loans and advances	**(4,573,195)**	(4,516,117)
Total loans and advances to customers	**110,181,548**	118,960,394

As of 31 December 2015 accrued interest included in loans and advances to customers amounted to AMD 6,576,740 thousand (2014: AMD 4,044,558 thousand).

As of 31 December 2015 the average effective interest rates on loans and advances to corporate customers were 16.09% for loans in AMD, 15.3% for loans in USD, 14.16% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 25.46% for loans in AMD, 17.59% for loans in USD, 11.92% for loans in EUR (2014: on loans and advances to corporate customers 14.41% for loans in AMD, 12.76% for loans in USD, 11.85% for loans in EUR, 13.91% for loans in RUB and to individuals 21.43%for loans in AMD, 13.84% for loans in USD, 11.67% for loans in EUR).

As of December 31, 2015, the Bank had a concentration of loans represented by AMD 23,339,952 thousand due from the 15 largest third party entities and parties related with them (20% of gross loan portfolio) (2014: AMD 21,823,052 thousand or 18% due from the 15 largest third party entities and parties related with them). An allowance of AMD 1,496,852 thousand (2014: AMD 1,306,000 thousand) was made against these loans.

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Manufacture	**9,503,504**	12,282,590
Agriculture	**684,061**	778,610
Construction	**4,542,902**	4,773,010
Transportation	**4,235,454**	4,210,254
Trade	**23,902,749**	25,346,631
Services	**8,888,679**	8,196,147
Consumer	**41,191,322**	44,456,163
Mortgage	**14,162,071**	16,169,952
Other	**7,644,001**	7,263,154
	114,754,743	123,476,511
Less allowances for impairment of loans and advances	**(4,573,195)**	(4,516,117)
Total loans and advances	**110,181,548**	118,960,394

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

										2015
In thousand Armenian drams	**Manu-facture**	**Agri-culture**	**Const-ruction**	**Transport**	**Trading**	**Services**	**Con-sumer**	**Mort-gage**	**Other**	**Total**
At 1 January 2015	**1,012,858**	**7,786**	**47,730**	**410,665**	**1,079,786**	**1,001,857**	**682,390**	**200,413**	**72,632**	**4,516,117**
Charge/(reversal) for the year	**(817,497)**	**46,254**	**(156,456)**	**179,745**	**111,710**	**(21,885)**	**2,673,973**	**362,396**	**13,918**	**2,392,158**
Amounts written off	**(114,666)**	**(37,863)**	**(26,917)**	**(89,635)**	**(526,328)**	**(6,566)**	**(3,255,347)**	**(408,053)**	**(6,288)**	**(4,471,663)**
Recoveries	**185,658**	**4,823**	**221,111**	**3,400**	**583,372**	**94,815**	**845,301**	**197,255**	**848**	**2,136,583**
At 31 December 2015	**266,353**	**21,000**	**85,468**	**504,175**	**1,248,540**	**1,068,221**	**946,317**	**352,011**	**81,110**	**4,573,195**
Individual impairment	**181,249**	**14,399**	**46,364**	**494,971**	**1,035,908**	**1,049,140**	**337,451**	**242,513**	**4,873**	**3,406,868**
Collective impairment	**85,104**	**6,601**	**39,104**	**9,204**	**212,632**	**19,081**	**608,866**	**109,498**	**76,237**	**1,166,327**
	266,353	**21,000**	**85,468**	**504,175**	**1,248,540**	**1,068,221**	**946,317**	**352,011**	**81,110**	**4,573,195**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**993,073**	**23,999**	**632,471**	**3,315,050**	**2,639,554**	**6,980,571**	**600,288**	**3,212,230**	**20,303**	**18,417,539**

2014

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2014	433,052	42,062	99,007	53,670	904,801	337,715	283,710	105,689	220,912	2,480,618
Charge/(reversal) for the year	490,291	(37,926)	(13,580)	338,081	1,714,008	605,690	1,357,734	(242,256)	(108,724)	4,103,318
Amounts written off	(169,232)	(3,761)	(83,381)	(73,634)	(1,846,069)	(88,663)	(1,380,380)	(85,547)	(54,882)	(3,785,549)
Recoveries	258,747	7,411	45,684	92,548	307,046	147,115	421,326	422,527	15,326	1,717,730
At 31 December 2014	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Individual impairment	904,297	-	-	398,866	856,743	982,763	244,401	39,493	-	3,426,563
Collective impairment	108,561	7,786	47,730	11,799	223,043	19,094	437,989	160,920	72,632	1,089,554
	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,426,499	-	-	3,030,347	3,042,363	6,286,720	657,261	77,966	-	14,521,156

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
State owned enterprises	**323,190**	685,906
Privately held companies	**47,031,132**	49,998,452
Individuals	**56,288,029**	61,496,082
Sole proprietors	**11,112,392**	11,296,071
	114,754,743	123,476,511
Less allowance for impairment of loans and advances	**(4,573,195)**	(4,516,117)
Total loans and advances to customers	**110,181,548**	118,960,394

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Mortgage loans	**14,162,071**	16,169,952
Consumer loans	**39,886,245**	40,827,021
Car loans	**1,305,077**	3,629,142
Other	**934,636**	869,967
Total loans and advances to individuals	**56,288,029**	61,496,082

As at 31 December 2015 and 2014 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 30.

Other analyses of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 29.

Maturity analysis of loans and advances to customers are disclosed in Note 32.

18 Available-for-sale investments

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
RA state bonds	**4,177,724**	19,233
Corporate bonds	**221,447**	-
Total investments	**4,411,861**	31,923

All debt securities have fixed coupons.

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

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

In thousand Armenian drams		**2015**		2014
	%	**Maturity**	%	Maturity
RA state bonds	**6.23-14.10%**	**2015-2028**	8.4-14.23%	2015-2028

Available-for-sale investments at fair value of AMD 4,136,760 thousand (2014: AMD 4,984,447 thousand) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 26).

All unquoted available-for-sale shares are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
COST AND REVALUED AMOUNT						
At January 1, 2014	2,600,168	374,397	943,484	359,862	2,095,829	6,373,740
Additions	800,232	13,429	142,929	1,927	326,341	1,284,858
Disposals	-	(2,609)	(65,547)	(64,608)	(35,213)	(167,977)
Reclassification	-	-	76	-	(76)	-
At December 31, 2014	**3,400,400**	**385,217**	**1,020,942**	**297,181**	**2,386,881**	**7,490,621**
Additions	**50,010**	**25,598**	**71,625**	**2,198**	**225,687**	**375,118**
Disposals	**-**	**(5,753)**	**(36,697)**	**(119,852)**	**(80,699)**	**(243,001)**
Revaluation of PPE	**149,663**	**-**	**-**	**-**	**-**	**149,663**
Revaluation adjustments	**(233,719)**	**-**	**-**	**-**	**-**	**(233,719)**
At December 31, 2015	**3,366,354**	**405,062**	**1,055,870**	**179,527**	**2,531,869**	**7,538,682**
ACCUMULATED DEPRECIATION						
At January 1, 2014	128,434	82,314	605,225	115,498	1,145,714	2,077,185
Depreciation charge	56,879	7,652	70,273	40,552	201,865	377,221
Disposals	-	(2,609)	(38,609)	(37,345)	(27,678)	(106,241)
At December 31, 2014	**185,313**	**87,357**	**636,889**	**118,705**	**1,319,901**	**2,348,165**
Depreciation charge	**57,955**	**10,715**	**95,413**	**32,006**	**216,863**	**412,952**
Disposals	**-**	**(5,753)**	**(36,097)**	**(69,968)**	**(42,240)**	**(154,058)**
Revaluation adjustments	**(233,719)**	**-**	**-**	**-**	**-**	**(233,719)**
At December 31, 2015	**9,549**	**92,319**	**696,205**	**80,743**	**1,494,524**	**2,373,340**
CARRYING VALUE						
At December 31, 2015	**3,356,805**	**312,743**	**359,665**	**98,784**	**1,037,345**	**5,165,342**
At December 31, 2014	**3,215,087**	**297,860**	**384,053**	**178,476**	**1,066,980**	**5,142,456**
At January 1, 2014	2,471,734	292,083	338,259	244,364	950,115	4,296,555

Revaluation of assets

The land and buildings owned by the Bank were evaluated by an independent appraiser in December 2015 using the comparative sales methods resulting in a net decrease in amount of AMD 149,663 thousand. Management has based their estimate of the fair value of the buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 3,192,114 thousand as at 31 December 2015 (2014: AMD 2,897,446 thousand).

Fully depreciated items

As at 31 December 2015 fixed assets included fully depreciated and amortized assets in cost of AMD 1,036,034 thousand (2014: AMD 889,394 thousand).

Fixed assets in the phase of installation

As at 31 December 2015 fixed assets included assets in the phase of installation amounting AMD 466,468 thousand, containing buildings in amount of AMD 17,830 thousand (2014: AMD 349,895 thousand, containing buildings in amount of AMD 150,470 thousand)

Restrictions on title of fixed assets

As at 31 December 2015, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2015, the Bank had no contractual commitment in respect of investments in fixed assets (2014: nil).

20 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2014	734,205	341,228	100,433	1,175,866
Additions	188,606	194,044	-	382,650
At December 31, 2014	**922,811**	**535,272**	**100,433**	**1,558,516**
Additions	**8,027**	**132,035**	**-**	**140,062**
At December 31, 2015	**930,838**	**667,307**	**100,433**	**1,698,578**
AMORTISATION				
At January 1, 2014	63,217	112,737	54,696	230,650
Amortisation charge	49,869	20,827	2,388	73,084
At December 31, 2014	**113,086**	**133,564**	**57,084**	**303,734**
Amortisation charge	**58,510**	**19,898**	**2,388**	**80,796**
At December 31, 2015	**171,596**	**153,462**	**59,472**	**384,530**
CARRYING VALUE				
At December 31, 2015	**759,242**	**513,845**	**40,961**	**1,314,048**
At December 31, 2014	809,725	401,708	43,349	1,254,782
At January 1, 2014	670,988	228,491	45,737	945,216

Contractual commitments

As at 31 December 2015, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2015, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2015, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 580,189 thousand (2014: AMD 647,905 thousand).

21 Other assets

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Prepayments and other debtors	**1,264,949**	670,145
Accounts receivable	**39,996**	34,714
Other assets	**343,092**	287,514
	1,648,037	992,373
Less allowance for impairment	**(16,081)**	(9,844)
	1,631,956	982,529
Repossessed assets	**3,601,921**	3,409,764
Other prepaid taxes	**1,565**	27,143
Materials	**99,758**	107,306
Precious metals	**52,343**	56,935
Total non-financial assets	**3,755,587**	**3,601,148**
Total other assets	**5,387,543**	4,583,677

Repossessed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

During 2015 the Bank has recognised an impairment of repossessed assets in AMD 183,065 thousand due to decrease in real estate market prices.

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

In thousand Armenian drams	**Total**
At January 1, 2014	6,529
Charge for the year	3,315
At December 31, 2014	**9,844**
Charge for the year	**6,237**
At December 31, 2015	**16,081**

22 Amounts due to financial institutions

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Correspondent accounts of other banks	**84,849**	982,086
Current accounts of other financial institutions	**47,836**	51,871
Loans from financial institutions	**17,117,304**	25,314,479
Loans under repurchase agreements	**4,002,028**	4,855,326
Deposits from financial institutions	**1,003,495**	1,359,504
Other	**-**	4,263
Total amounts due to financial institutions	**22,255,512**	32,567,529

As of 31 December 2015 the average effective interest rates on amounts due to financial institutions was 9.79% for borrowings in AMD (2014: 9.89%) and 6.8% for borrowings in USD (2014: 6.49%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2014: nil).

23 Amounts due to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Government of the RA		
Loans	**551,740**	877,594
Other	**7,959**	-
	559,699	877,594
Corporate customers		
Current/Settlement accounts	**6,536,569**	9,283,847
Time deposits	**6,997,688**	5,780,854
	13,534,257	15,064,701
Retail customers		
Current/Demand accounts	**5,614,865**	5,195,852
Time deposits	**84,461,903**	80,931,682
	90,076,768	86,127,534
Total amounts due to customers	**104,170,724**	102,069,829

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of "Rural Areas Development Programme" and "Economy stabilization lending programme". Loans carry fixed interest rates.

Deposits from corporate and retail customers carry fixed interest rates.

As of 31 December 2015 the average effective interest rate on amounts due to Government of the RA was 7.15% for liabilities in AMD, 4.06% for liabilities in USD (2014: the average effective interest rate was 6.75% for liabilities in AMD, 4.06% for liabilities in USD).

As at 31 December 2015 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 7,011,401 thousand (2014: AMD 6,494,537 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2015 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 8,724,848 thousand (2014: AMD 14,614,719 thousand) or 9.5% of total retail and corporate customer accounts (2014: 14%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2014: nil).

As of 31 December 2015 the average effective interest rates on amounts due to corporate customers were 13.59% for liabilities in AMD, 8.85% for liabilities in USD, 7.56% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 17.33% for liabilities in AMD, 7.66% for liabilities in USD, 6.6% for liabilities in EUR (2014: for corporate customers 12.88% for liabilities in AMD, 9.05% for liabilities in USD, 3.56% for liabilities in EUR, and for individuals 13.64% for liabilities in AMD, 7.49% for liabilities in USD, 5.01% for liabilities in EUR).

24 Borrowings

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Subordinated debt provided by non-financial organizations	**5,273,785**	7,126,893
Subordinated debt provided by the CBA	**-**	1,874,145
Other borrowing	**2,237,706**	4,340,000
Total subordinated debt	**7,511,491**	13,341,038

The subordinate debt was provided by the Central Bank of RA on 06 April, 2010, which was matured on 06 April, 2015. The interest rate comprises 7.5%.

In the current year the Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 29).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2014: nil).

As of 31 December 2015 average weighted interest rate of borrowings was 10.28% (2014: 10.25%).

25 Other liabilities

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Accounts payables	**114,587**	121,323
Dividends payable	**86,797**	384,120
Due to personnel	**155,135**	222,472
Total other financial liabilities	**356,519**	727,915
Tax payable, other than income tax	**304,350**	300,630
Revenues of future periods	**41,596**	43,143
Prepayments received	**59,535**	45,774
Total other non-financial liabilities	**405,481**	389,547
Total other liabilities	**762,000**	1,117,462

26 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**		Liability	
	2015	2014	**2015**	2014
Investment securities (Note 18, 22)	**4,136,760**	4,984,447	**4,002,028**	4,855,326
	4,136,760	4,984,447	**4,002,028**	4,855,326

27 Equity

As at 31 December 2015 the Bank's registered and paid-in share capital was AMD 14,167,947 thousand. In accordance with the Bank's statute, the share capital consists of 109,669,471 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

The respective shareholdings as at 31 December 2015 and 2014 may be specified as follow:

In thousand Armenian drams	2015		2014	
	Paid-in share capital	**% of total paid-in capital**	**Paid-in share capital**	**% of total paid-in capital**
Ripatonso Holdings Ltd	**-**	**-**	13,100,700	100
Glovery Holding Ltd	**13,100,700**	**92**	-	-
Arolova Enterprises Ltd	**509,395**	**4**	-	-
Amixon Business Ltd	**350,000**	**2**	-	-
Other	**207,852**	**2**	-	-
	14,167,947	**100**	13,100,700	100

As at 31 December 2015 the Bank did not possess any of its own shares.

In 2015 the Bank increased its share capital by AMD 2,494,669 thousand, from which the share premium was AMD 1,387,422 thousand. The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

31 December 2016 is determined as a deadline for the allocation of the Bank's additionally issued shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2015 the dividends for preference shareholders recognized in the financial statements amounted to AMD 202,998 thousand (2014: AMD 384,120 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

28 Contingent liabilities and commitments

Tax and legal matters

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Undrawn loan commitments	**3,468,061**	4,935,703
Guarantees	**1,612,800**	1,772,728
Total commitments and contingent liabilities	**5,080,861**	6,708,431

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Not later than 1 year	**662,481**	692,809
Later than 1 year and not later than 5 years	**1,844,972**	2,072,266
Later than 5 years	**73,395**	409,314
Total operating lease commitments	**2,580,848**	3,174,389

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 19 and 20.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partially coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

29 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

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

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of financial position				
Assets				
Loans and advances to customers				
Loans outstanding at January 1, gross	**246,962**	**578,709**	299,140	521,614
Loans issued during the year	**2,477**	**215,676**	20,423	252,733
Loan repayments during the year	**(9,988)**	**(585,867)**	(72,601)	(195,638)
Loans outstanding at December 31, gross	**239,451**	**208,518**	246,962	578,709
Less: allowance for loan impairment	**(2,395)**	**(2,085)**	(2,470)	(5,787)
Loans outstanding at December 31	**237,056**	**206,433**	244,492	572,922
Amounts due from other financial institutions				
At January 1	**540,238**	**-**	235,656	-
Increase	**83,418,690**	**-**	135,671,503	-
Decrease	**(83,392,197)**	**-**	(135,366,921)	-
At December 31	**566,731**	**-**	540,238	-
Liabilities				
Amounts due to financial institutions				
At January 1	**890,535**	**-**	314,612	-
Increase	**7,623,634**	**-**	7,222,032	-
Decrease	**(7,639,996)**	**-**	(6,646,109)	-
At December 31	**874,173**	**-**	890,535	-
Amounts due to customers				
Deposits at January 1	**362,014**	**624,226**	491,016	719,840
Deposits received during the year	**31,543,725**	**2,052,752**	88,628,735	6,778,086
Deposits repaid during the year	**(31,234,208)**	**(2,484,822)**	(88,757,737)	(6,873,700)
Deposits at December 31	**671,531**	**192,156**	362,014	624,226
Borrowings				
At January 1	**11,466,893**	**-**	21,951,228	-
Received during the year	**33,042,171**	**-**	47,351,479	-
Repaid during the year	**(36,997,573)**	**-**	(57,835,814)	-
Borrowings at December 31	**7,511,491**	**-**	11,466,893	-

In thousand Armenian drams	As of December 31, 2015		As of December 31, 2014	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of profit or loss and other comprehensive income				
Interest and similar income	**37,373**	**21,109**	110,380	63,554
Interest and similar expenses	**(2,071,004)**	**(48,983)**	(2,018,181)	(45,187)
Charge/(recovery) of credit losses	**(75)**	**(3,702)**	(522)	571
Operating lease expenses	**(312,000)**	**-**	312,000	-
Insurance payments	**(41,923)**	**-**	84,685	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-21%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Salaries and bonuses	**631,517**	611,649
Total key management compensation	**631,517**	611,649

30 Fair value measurement

The Bank's Management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, buildings and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the Bank's management.

At each reporting date, the Bank's Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank's Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

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

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

30.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams					**As of 31 December 2015**
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**26,012,823**	**-**	**26,012,823**	**26,012,823**
Amounts due from other financial institutions	**-**	**1,245,854**	**-**	**1,245,854**	**1,245,854**
Loans and advances to customers	**-**	**110,181,548**	**-**	**110,181,548**	**110,181,548**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**-**	**22,255,512**	**-**	**22,255,512**	**22,255,512**
Amounts due to customers	**-**	**104,170,724**	**-**	**104,170,724**	**104,170,724**
Borrowings	**-**	**7,511,491**	**-**	**7,511,491**	**7,511,491**
Other financial liabilities	**-**	**356,519**	**-**	**356,519**	**356,519**

In thousand Armenian drams					As of 31 December 2014
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	34,036,384	-	34,036,384	34,036,384
Amounts due from other financial institutions	-	882,221	-	882,221	882,221
Loans and advances to customers	-	118,960,394	-	118,960,394	118,960,394
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	32,567,529	-	32,567,529	32,567,529
Amounts due to customers	-	102,069,829	-	102,069,829	102,069,829
Borrowings	-	13,341,038	-	13,341,038	13,341,038
Other financial liabilities	-	727,915	-	727,915	727,915

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 24% per annum.

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

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

30.2 Financial instruments that are measured at fair value

In thousand Armenian drams			**As of 31 December 2014**	
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unlisted securities and bonds	**-**	**8,535,931**	**-**	**8,535,931**
Total	**-**	**8,535,931**	**-**	**8,535,931**

In thousand Armenian drams			As of 31 December 2014	
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unlisted securities and bonds	-	5,003,680	-	5,003,680
Total	-	5,003,680	-	5,003,680

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

Unlisted equity investments.

The fair value of Bank's investments in unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment.

30.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams			**As of 31 December 2015**	
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	**3,366,354**	**3,366,354**
Total non-financial assets	-	-	**3,366,354**	**3,366,354**
NET FAIR VALUE	**-**	**-**	**3,366,354**	**3,366,354**

In thousand Armenian drams			As of 31 December 2014	
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	3,400,400	3,400,400
Total non-financial assets	-	-	3,400,400	3,400,400
NET FAIR VALUE	-	-	3,400,400	3,400,400

Fair value measurements in Level 3

The Bank's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets and non-financial obligations within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	**As of 31 December 2015**	
	Property plant equipment	**Total**
NON FINANCIAL ASSETS		
Balance as at 1 January 2015	**3,400,400**	**3,400,400**
Net income from impairment recognized in comprehensive income	**103,881**	**103,881**
PPE revaluation adjustment	**(233,719)**	**(233,719)**
Gain recognised in other comprehensive income	**45,782**	**45,782**
Purchase	**50,010**	**50,010**
Balance as at 31 December, 2015	**3,366,354**	**3,366,354**
NET FAIR VALUE	**3,366,354**	**3,366,354**

In thousand Armenian drams	2014	
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2014	2,600,168	2,600,168
Purchases	800,232	800,232
Balance as at 31 December, 2014	3,400,400	3,400,400
NET FAIR VALUE	3,400,400	3,400,400

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with Management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

31 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams						**As of December 31, 2015**
				Amounts not offset		
	Gross liabilities	**Gross assets offset**	**Net amounts presented**	**Financial instruments**	**Cash collateral received**	**Net**
FINANCIAL LIABILITIES						
Securities pledged under repurchase agreements (Note 26)	**(4,002,028)**	**-**	**(4,002,028)**	**4,136,760**	**-**	**134,732**
	(4,002,028)	**-**	**(4,002,028)**	**4,136,760**	**-**	**134,732**

In thousand Armenian drams						As of December 31, 2014
				Amounts not offset		
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Cash collateral received	Net
FINANCIAL LIABILITIES						
Securities pledged under repurchase agreements (Note 26)	(4,855,326)	-	(4,855,326)	4,984,447	-	129,121
	(4,855,326)	-	(4,855,326)	4,984,447	-	129,121

32 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 33.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								**As of December 31, 2015**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash and cash equivalents	**26,012,823**	**-**	**-**	**26,012,823**	**-**	**-**	**-**	**26,012,823**
Amounts due from other financial institutions	**735,854**	**-**	**-**	**735,854**	**-**	**510,000**	**510,000**	**1,245,854**
Loans and advances to customers	**17,333,604**	**17,623,158**	**21,570,598**	**56,527,360**	**44,080,251**	**9,573,937**	**53,654,188**	**110,181,548**
Investments available for sale	**-**	**4,984**	**-**	**4,984**	**4,406,877**	**-**	**4,406,877**	**4,411,861**
Securities pledged under repurchase agreements	**136,988**	**-**	**-**	**136,988**	**3,999,772**	**-**	**3,999,772**	**4,136,760**
	44,219,269	**17,628,142**	**21,570,598**	**83,418,009**	**52,486,900**	**10,083,937**	**62,570,837**	**145,988,846**
LIABILITIES								
Amounts due to financial institutions	**368,574**	**12,974,322**	**5,264,701**	**18,607,597**	**2,635,713**	**1,012,202**	**3,647,915**	**22,255,512**
Amounts due to customers	**12,103,737**	**47,112,604**	**44,344,798**	**103,561,139**	**360,788**	**248,797**	**609,585**	**104,170,724**
Borrowings	**1,334**	**-**	**-**	**1,334**	**2,352,488**	**5,157,669**	**7,510,157**	**7,511,491**
Other liabilities	**87,639**	**268,880**	**-**	**356,519**	**-**	**-**	**-**	**356,519**
	12,561,284	**60,355,806**	**49,609,499**	**122,526,589**	**5,348,989**	**6,418,668**	**11,767,657**	**134,294,246**
Net position	**31,657,985**	**(42,727,664)**	**(28,038,901)**	**(39,108,580)**	**47,137,911**	**3,665,269**	**50,803,180**	**11,694,600**
Accumulated gap	**31,657,985**	**(11,069,679)**	**(39,108,580)**		**8,029,331**	**11,694,600**		

In thousand Armenian drams								As of December 31, 2014
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	34,036,384	-	-	34,036,384	-	-	-	34,036,384
Amounts due from other financial institutions	722,221	-	-	722,221	-	160,000	160,000	882,221
Loans and advances to customers	10,757,731	5,665,360	28,658,077	45,081,168	62,568,199	11,311,027	73,879,226	118,960,394
Investments available for sale	-	19,233	-	19,233	-	12,690	12,690	31,923
	-	207,839	-	207,839	3,972,281	804,327	4,776,608	4,984,447
	45,516,336	5,892,432	28,658,077	80,066,845	66,540,480	12,288,044	78,828,524	158,895,369
LIABILITIES								
Amounts due to financial institutions								
Amounts due to customers	9,784,971	5,494,405	11,535,685	26,815,061	4,891,199	861,269	5,752,468	32,567,529
Borrowings	28,850,543	25,072,995	43,093,975	97,017,513	2,648,285	2,404,031	5,052,316	102,069,829
Other liabilities	9,159	4,037,704	2,169,625	6,216,488	4,749,700	2,374,850	7,124,550	13,341,038
	505,443	-	222,472	727,915	-	-	-	727,915
	39,150,116	34,605,104	57,021,757	130,776,977	12,289,184	5,640,150	17,929,334	148,706,311
Net position	6,366,220	(28,712,672)	(28,363,680)	(50,710,132)	54,251,296	6,647,894	60,899,190	10,189,058
Accumulated gap	6,366,220	(22,346,452)	(50,710,132)		3,541,164	10,189,058		

33 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank 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 Bank's strategic planning process.

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

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

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

33.1 Credit risk

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

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

33.1.1 Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**23,310,254**	**1,982,075**	**720,494**	**26,012,823**
Amounts due from other financial institutions	**582,563**	**663,291**	**-**	**1,245,854**
Loans and advances to customers	**108,071,176**	**-**	**2,110,372**	**110,181,548**
Investments available for sale	**4,411,861**	**-**	**-**	**4,411,861**
Securities pledged under repurchase agreements	**4,136,760**	**-**	**-**	**4,136,760**
As at 31 December 2015	**140,512,614**	**2,645,366**	**2,830,866**	**145,988,846**
As at 31 December 2014	152,292,014	3,515,377	3,087,978	158,895,369

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	**26,012,823**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26,012,823**
Amounts due from other financial institutions	**1,245,854**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**1,245,854**
Loans and advances to customers	**-**	**9,237,151**	**663,061**	**4,457,434**	**3,731,279**	**22,654,209**	**7,820,458**	**40,245,005**	**13,810,060**	**7,562,891**	**110,181,548**
Investments available for sale	**4,411,861**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,411,861**
Securities pledged under repurchase agreements	**4,136,760**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,136,760**
As at 31 December 2015	**35,807,298**	**9,237,151**	**663,061**	**4,457,434**	**3,731,279**	**22,654,209**	**7,820,458**	**40,245,005**	**13,810,060**	**7,562,891**	**145,988,846**
As at 31 December 2014	39,934,975	11,269,732	770,824	4,725,280	3,799,589	24,266,845	7,194,290	43,773,773	15,969,539	7,190,522	158,895,369

33.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Bank.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Loans collateralized by real estate	**71,796,633**	74,410,239
Loans collateralized by movable property	**1,482,968**	2,876,351
Loans collateralized by goods in circulation	**277,432**	658,866
Loans collateralized by guarantees	**6,313,192**	11,126,497
Loans collateralized by cash	**3,514,323**	3,022,890
Loans collateralized by household appliances	**14,083,535**	13,000,124
Unsecured loans	**17,286,660**	18,381,544
Total loans and advances to customers (gross)	**114,754,743**	123,476,511

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

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

33.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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 Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Loans and advances to customers		
Manufacture	**1%**	**1%**
Agriculture	**1%**	**1%**
Construction	**1%**	**1%**
Transportation	**1%**	**1%**
Trade	**1%**	**1%**
Service	**1%**	**1%**
Consumer	**1.5%**	**1%**
Mortgage	**1%**	**1%**

As of 31 December 2015 and 2014 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

In thousand Armenian drams				**As of December 31, 2015**	
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**65,076**	**4,071**	**-**	**633,708**	**702,855**
Agriculture	**4,497**	**-**	**-**	**52,808**	**57,305**
Construction	**5,661**	**-**	**-**	**60,322**	**65,983**
Transportation	**25,451**	**9,178**	**20,840**		**55,469**
Trade	**159,746**	**140,002**	**140,264**	**1,393,896**	**1,833,908**
Service	**58,628**	**6,906**	**21,791**	**264,183**	**351,508**
Consumer	**717,100**	**303,368**	**244,112**	**1,735,896**	**3,000,476**
Mortgage	**196,509**	**128,105**	**59,053**	**617,449**	**1,001,116**
Other	**3,532**	**-**	**-**	**14,368**	**17,900**
Total	**1,236,200**	**591,630**	**486,060**	**4,772,630**	**7,086,520**

In thousand Armenian drams				As of December 31, 2014	
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	-	-	-	66,178	66,178
Agriculture	-	-	-	-	-
Construction	-	-	-	162,000	162,000
Transportation	-	-	-	-	-
Trade	714,087	-	-	-	714,087
Service			-	82,891	82,891
Consumer	4,130	865	-	2,938	7,933
Mortgage	-	-	-	-	-
Other	-	-	-	-	-
Total	718,217	865	-	314,007	1,033,089

33.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

33.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2015 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams — **As of December 31, 2015**

			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1**	**-**	**-**	**-**	**152,505**	**-**	**152,505**
USD	**+1**	**(37,239)**	**-**	**-**	**73,113**	**-**	**35,874**
AMD	**(1)**	**-**	**-**	**-**	**(146,126)**	**-**	**(146,126)**
USD	**(1)**	**37,239**	**-**	**-**	**(69,744)**	**-**	**(32,505)**

In thousand Armenian drams — As of December 31, 2014

			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1	-	40	-	104,476	52,059	156,575
USD	+1	(72,576)	-	-	-	-	(72,576)
AMD	(1)	-	(40)	-	(101,128)	(47,325)	(148,493)
USD	(1)	72,576	-	-	-	-	72,576

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**+5**	**(164,207)**	+5	(203,705)
EUR	**+5**	**(603)**	+5	15,446
USD	**(5)**	**164,207**	(5)	203,705
EUR	**(5)**	**603**	(5)	(15,446)

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

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies/ precious metals**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and cash equivalents	**16,566,706**	**8,656,970**	**789,147**	**26,012,823**
Amounts due from other financial institutions	**510,000**	**735,854**	**-**	**1,245,854**
Loans and advances to customers	**44,265,383**	**65,910,489**	**5,676**	**110,181,548**
Investments available for sale	**2,533,921**	**1,877,940**	**-**	**4,411,861**
Securities pledged under repurchase agreements	**4,136,760**	**-**	**-**	**4,136,760**
	68,012,770	**77,181,253**	**794,823**	**145,988,846**
LIABILITIES				
Amounts due to financial institutions	**9,185,436**	**13,068,273**	**1,803**	**22,255,512**
Amounts due to customers	**43,534,814**	**59,805,004**	**830,906**	**104,170,724**
Borrowings	**100**	**7,511,391**	**-**	**7,511,491**
Other liabilities	**306,108**	**48,739**	**1,672**	**356,519**
	53,026,458	**80,433,407**	**834,381**	**134,294,246**
Net position as at 31 December 2015	**14,986,312**	**(3,252,154)**	**(39,558)**	**11,694,600**
Commitments and contingent liabilities as at 31 December 2015	**3,899,778**	**1,181,083**	**-**	**5,080,861**
Total financial assets	64,085,436	94,203,768	606,165	158,895,369
Total financial liabilities	50,082,317	97,968,948	655,046	148,706,311
Net position as at 31 December 2014	14,003,119	(3,765,180)	(48,881)	10,189,058
Commitments and contingent liabilities as at 31 December 2014	2,936,336	3,772,095	-	6,708,431

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

33.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2015, %**	2014, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**21.53**	21.76
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**272.06**	266.63

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. See note 32 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	As of December 31, 2015					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**371,538**	**13,187,599**	**5,661,357**	**3,689,998**	**1,518,303**	**24,428,795**
Amounts due to customers	**12,203,220**	**47,887,058**	**47,685,844**	**541,182**	**273,677**	**108,590,981**
Borrowings	**75,420**	**197,563**	**679,121**	**3,763,981**	**5,776,589**	**10,492,674**
Other liabilities	**87,639**	**268,880**	**-**	**-**	**-**	**356,519**
Total undiscounted financial liabilities	**12,737,817**	**61,541,100**	**54,026,322**	**7,995,161**	**7,568,569**	**143,868,969**
Commitments and contingent liabilities	**400,342**	**451,204**	**1,885,538**	**2,343,777**	**-**	**5,080,861**

In thousand Armenian drams	As of December 31, 2014					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	10,229,808	6,912,034	12,706,264	6,633,164	1,020,169	37,501,439
Amounts due to customers	32,954,178	27,752,288	50,849,689	2,694,502	2,804,031	117,054,688
Borrowings	122,071	4,281,843	2,935,042	8,169,484	2,398,599	17,907,039
Other liabilities	505,443	-	222,472	-	-	727,915
Total undiscounted financial liabilities	43,811,500	38,946,165	66,713,467	17,497,150	6,222,799	173,191,081
Commitments and contingent liabilities	5,111,559	288,730	801,809	506,333	-	6,708,431

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 32. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2015 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

34 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, police and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and subordinated debt.

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

As of 31 December 2015 and 2014 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2015**	2014
Tier 1 capital	**14,507,633**	16,208,646
Tier 2 capital	**3,490,367**	5,792,800
Total regulatory capital	**17,998,000**	22,001,446
Risk-weighted assets	**148,375,927**	164,928,381
Capital adequacy ratio	**12.13%**	13.34%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

By its perspective development project the Bank has planned to issue additional shares in April, July and October of 2016, in 5.2 billion, 2.8 billion and 4 billion volumes respectively.

35 Segment reporting

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

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

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

Financial Statements and Independent Auditor's Report

UNIBANK open joint stock company

31 December 2016

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Grant Thornton

Independent auditor's report

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To the Shareholder and Board of Directors of Open Joint Stock Company "UNIBANK":

Opinion

We have audited the financial statements of "UNIBANK" OPEN JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

We have determined that there are no key audit matters to communicate in our report.

Grant Thornton

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Gagik Gyulbudaghyan	Armen Hovhannisyan
Managing Partner	Engagement Partner

26 April 2017

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest and similar income	6	**21,329,971**	19,714,397
Interest and similar expense	6	**(12,968,927)**	(13,431,362)
Net interest income		**8,361,044**	6,283,035
Fee and commission income	7	**1,036,568**	1,334,902
Fee and commission expense	7	**(289,585)**	(257,701)
Net fee and commission income		**746,983**	1,077,201
Net trading income	8	**270,717**	677,989
Other income	9	**1,452,759**	1,383,757
Impairment charge	10	**(4,436,968)**	(2,398,395)
Staff costs	11	**(3,128,249)**	(3,070,810)
Depreciation of property and equipment	20	**(450,013)**	(412,952)
Amortization of intangible assets	21	**(84,359)**	(80,796)
Other expenses	12	**(3,150,583)**	(2,912,720)
Profit/(loss) before income tax		**(418,669)**	546,309
Income tax expense	13	**(24,549)**	(187,828)
Profit/(loss) for the year		**(443,218)**	358,481
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**1,096,106**	45,782
Income tax relating to items not reclassified		**(219,221)**	(9,157)
		876,885	36,625
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain/(loss) from changes in fair value from available-for-sale financial assets		**664,809**	(468,167)
Income tax relating to items that will be reclassified		**(132,962)**	93,633
		531,847	(374,534)
Other comprehensive income for the year, net of tax		**1,408,732**	(337,909)
Total comprehensive income for the year		**965,514**	20,572
Earnings/(loss) per share	14	**(0.00348)**	0.00157

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2016	As of 31 December 2015
ASSETS			
Cash and cash equivalents	15	**33,547,636**	26,012,823
Amounts due from financial institutions	16	**3,268,547**	1,245,854
Derivative financial assets	17	**99,004**	-
Loans and advances to customers	18	**118,627,063**	110,181,548
Investments available for sale	19	**14,399,954**	4,411,861
Securities pledged under repurchase agreements	28	**-**	4,136,760
Property, plant and equipment	20	**7,651,713**	5,165,342
Intangible assets	21	**1,380,101**	1,314,048
Prepaid income taxes		**81,010**	284,081
Other assets	22	**6,341,061**	5,387,543
TOTAL ASSETS		**185,396,089**	158,139,860
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	23	**5,042,688**	22,255,512
Amounts due to customers	24	**128,012,569**	103,611,025
Borrowings	25	**13,260,387**	8,071,190
Debt securities issued	26	**2,652,531**	-
Deferred income tax liabilities	13	**957,978**	731,041
Other liabilities	26	**626,893**	762,000
Total liabilities		**150,553,046**	135,430,768
Equity			
Share capital	29	**19,093,378**	14,167,947
Share premium		**7,790,481**	1,387,422
Statutory general reserve		**426,482**	421,851
Other reserves		**916,048**	(492,684)
Retained earnings		**6,616,654**	7,224,556
Total equity		**34,843,043**	22,709,092
TOTAL LIABILITIES AND EQUITY		**185,396,089**	158,139,860

The financial statements from pages 4 to 56 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 26 April 2017.

Vardan ATAYAN
Chairman of Executive Board

Gohar GRIGORYAN
Chief accountant

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2015	13,100,700	-	370,137	(539,186)	384,411	7,120,787	20,436,849
Increase of share capital	1,067,247	1,387,422	-	-	-	-	2,454,669
Distribution to reserve	-	-	51,714	-	-	(51,714)	-
Dividends to shareholders	-		-	-	-	(202,998)	(202,998)
Transactions with owners	1,067,247	1,387,422	51,714	-	-	(254,712)	2,251,671
Profit for the year	-	-	-	-	-	358,481	358,481
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	45,782	-	45,782
Net unrealized loss from changes in fair value	-	-	-	(468,167)	-	-	(468,167)
Income tax relating to components of other comprehensive income	-	-	-	93,633	(9,157)	-	84,476
Total comprehensive income for the year	-	-	-	(374,534)	36,625	358,481	20,572
Balance as of 31 December 2015	**14,167,947**	**1,387,422**	**421,851**	**(913,720)**	**421,036**	**7,224,556**	**22,709,092**
Increase in share capital	**4,925,431**	**6,403,059**	**-**	**-**	**-**	**-**	**11,328,490**
Distribution to reserve	**-**	**-**	**4,631**	**-**	**-**	**(4,631)**	**-**
Dividends to shareholders	**-**		**-**	**-**	**-**	**(160,053)**	**(160,053)**
Transactions with owners	**4,925,431**	**6,403,059**	**4,631**	**-**	**-**	**(164,684)**	**11,168,437**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(443,218)**	**(443,218)**
Other comprehensive income:							
Revaluation of PPE	**-**	**-**	**-**	**-**	**1,096,106**	**-**	**1,096,106**
Net unrealized gains from changes in fair value	**-**	**-**	**-**	**664,809**	**-**	**-**	**664,809**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**(132,962)**	**(219,221)**	**-**	**(352,183)**
Total comprehensive income for the year	**-**	**-**	**-**	**531,847**	**876,885**	**(443,218)**	**965,514**
Balance as of 31 December 2016	**19,093,378**	**7,790,481**	**426,482**	**(381,873)**	**1,297,921**	**6,616,654**	**34,843,043**

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams

	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities		
Profit/(loss) before tax	**(418,669)**	546,309
Adjustments for		
Impairment charge	**4,436,968**	2,398,395
Impairment/(reversal of impairment) and (gains)/loss on sale of repossessed assets	**(44,451)**	223,174
Impairment/(reversal of impairment) of PPE	**89,434**	(103,881)
Amortization and depreciation allowances	**534,372**	493,748
Loss from sale of PPE	**16,731**	17,021
Interest receivable	**(1,034,266)**	(2,280,884)
Interest payable	**(303,381)**	495,761
Revaluation of derivative financial instruments	**256,470**	-
Foreign currency translation net gain of non-trading assets and liabilities	**(181,453)**	(179,415)
Cash flows from operating activities before changes in operating assets and liabilities	**3,351,755**	1,610,228
(Increase)/decrease in operating assets		
Amounts due from financial institutions	**(2,080,268)**	(320,892)
Derivative financial instruments	**(355,474)**	-
Loans and advances to customers	**(15,285,569)**	9,379,240
Other assets	**2,804,772**	(623,137)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(756)**	(826,458)
Amounts due to customers	**24,521,896**	1,490,851
Other liabilities	**(54,014)**	(62,136)
Net cash flow used in operating activities before income tax	**12,902,342**	10,647,696
Income tax paid	**53,276**	31
Net cash from operating activities	**12,955,618**	10,647,727
Cash flows from investing activities		
Purchase of investment securities	**(5,125,305)**	(3,938,810)
Purchase of property and equipment	**(2,031,483)**	(375,118)
Proceeds from sale of property and equipment	**85,040**	71,922
Purchase of intangible assets	**(150,412)**	(140,062)
Net cash used in investing activities	**(7,222,160)**	(4,382,068)
Cash flow from financing activities		
Proceeds from issue of share capital	**11,328,490**	2,454,669
Dividends paid	**(246,850)**	(500,321)
Loans repaid to financial institutions	**(17,332,058)**	(9,654,080)
Issue of bonds	**2,637,137**	-
Other long-term loans and advances received/(repayment)	**5,543,439**	(6,292,311)
Net cash from/(used in) financing activities	**1,930,158**	(13,992,043)
Net increase/(decrease) in cash and cash equivalents	**7,663,616**	(7,726,384)
Cash and cash equivalents at the beginning of the year	**26,012,823**	34,036,384
Exchange differences on cash and cash equivalents	**(128,803)**	(297,177)
Cash and cash equivalents at the end of the year (Note 15)	**33,547,636**	26,012,823

Supplementary information:

Interest received	**20,305,950**	17,765,762
Interest paid	**(13,272,308)**	(12,935,601)

The accompanying notes on pages 8 to 56 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

On 23 June 2016 according to the Bank's license registered under number 0373, "UNIBANK" CJSC was reorganized to "UNIBANK" OJSC issuing 14,500,000 shares.

The Bank is a member of Individuals deposit compensation guarantee state system of RA , as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and it has 25 branches in Yerevan, 18 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh Republic and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

On August 24, 2016 the international rating agency Moody's Investors Service approved the Bank's deposit attraction B3/NP rating, caa1 base credit rating, B2(cr)/NP(cr) counterparty risk rating. Forecasts on all ratings changed to positive from stable.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2016, did not have a material impact on the annual financial statements of the Bank.

- *Disclosure Initiative (Amendments to IAS 1)*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16and IAS 38)*
- *Annual Improvements to IFRSs 2012–2014 Cycle.*

3.5 Standards and interpretations not yet applied by the Bank

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

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

Management does not anticipate a material impact on the Bank's financial statements from these Amendments, they are presented below.

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealised Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;

- the carrying amount of an asset does not limit the estimation of probable future taxable profits;

- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are effective for annual periods beginning on or after January 1, 2017 and are required to be applied retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

***IFRS 9 Financial Instruments* (2014)**

The IASB recently released IFRS 9 *Financial Instruments* (2014), representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Bank's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. The Bank's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

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

IFRS 16 also:

- changes the definition of a lease;

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established. According to the Tax Legislation of Republic of Armenia dividend income is non-taxable.

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

	31 December 2016	31 December 2015
AMD/1 US Dollar	**483.94**	483.75
AMD/1 Euro	**512.20**	528.69
AMD/1 Rub	**7.88**	6.62

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

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

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

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

The Bank classified its financial assets into the following categories:

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

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

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

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.8 Impairment of financial assets

The Bank assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate statement of financial position item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

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

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

4.12 Leases

Operating - Bank as leasee

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

4.13 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	**60**	**1.67**
Computers	**5**	**20**
Communication	**5**	**20**
Vehicles	**7**	**14.3**
ATM	**10**	**10**
Other fixed assets	**5**	**20**

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses.

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

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

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

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

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

4.15 Repossessed assets

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

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 Share capital

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Dividends paid to shareholders are payable from the profit after tax and according to the Tax legislation of RA are non-taxable

Property revaluation reserve

The property revaluation reserve is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

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

4.19 Offsetting

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

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

4.20 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 32).

Classification of investment securities

Securities owned by the Bank comprise of CBA, Armenian state and corporate bonds. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Useful Life of PPE

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

Derivatives

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

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. (see note 31).

Impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 30.

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

Impairment of available-for-sale equity investments

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

6 Interest and similar income and expense

In thousand Armenian drams	**2016**	2015
Loans and advances to customers	**19,596,435**	17,812,124
Debt investment securities available-for-sale	**1,331,614**	910,778
Amounts due to financial institutions	**91,578**	39,957
Reverse repurchase transactions	**86,416**	-
Interest accrued on individually impaired financial assets	**187,066**	951,323
Derivative instruments	**36,862**	-
Factoring	**-**	215
Total interest and similar income	**21,329,971**	19,714,397
Amounts due to customers	**10,268,285**	9,738,417
Amounts due to financial institutions	**927,321**	1,431,835
Government loans	**175,932**	47,348
Repurchase transactions	**207,360**	599,890
Borrowings	**1,255,391**	1,613,872
Bonds issued	**134,638**	-
Total interest and similar expense	**12,968,927**	13,431,362

7 Fee and commission income and expense

In thousand Armenian drams	2016	2015
Cash collection	**520,944**	892,244
Plastic cards operations	**170,710**	189,909
Guarantees and letters of credit	**41,689**	45,133
Foreign currency translation operations	**80,832**	88,545
Other fees and commissions	**222,393**	119,071
Total fee and commission income	**1,036,568**	1,334,902

Wire transfer fees	**95,529**	81,943
Plastic cards operations	**142,538**	143,726
Foreign currency translation operations	**3,410**	4,466
Stock exchange services	**18,420**	9,493
Other expenses	**29,688**	18,073
Total fee and commission expense	**289,585**	257,701

8 Net trading income

In thousand Armenian drams	2016	2015
Gains less losses from transactions in foreign currencies	**594,467**	724,110
Gains less losses from derivatives	**(256,470)**	(46,121)
Loss from security operations	**(67,280)**	-
Total net trading income	**270,717**	677,989

9 Other income

In thousand Armenian drams	2016	2015
Fines and penalties received	**1,105,394**	1,054,899
Foreign currency translation net gains of non-trading assets and liabilities	**181,453**	179,415
Reversal of impairment of repossessed assets	**126,836**	-
Gains from operations of precious metals	**3,730**	-
Reversal of impairment of PPE	**-**	120,003
Other income	**35,346**	29,440
Total other income	**1,452,759**	1,383,757

10 Impairment charge

In thousand Armenian drams	2016	2015
Loans and advances to customers (Note 18)	**4,429,112**	2,392,158
Other assets (Note 22)	**7,856**	6,237
Total impairment charge	**4,436,968**	2,398,395

11 Staff costs

In thousand Armenian drams	2016	2015
Compensations of employees, related taxes included	**3,125,380**	3,069,378
Staff training and other costs	**2,869**	1,432
Total staff costs	**3,128,249**	3,070,810

12 Other expenses

In thousand Armenian drams	2016	2015
Fixed assets maintenance	**549,324**	271,418
Advertising costs	**334,651**	299,572
Business trip expenses	**19,620**	13,906
Communications	**129,651**	127,837
Operating lease	**669,671**	771,161
Taxes, other than income tax, duties	**412,076**	352,712
Consulting and other services	**88,094**	192,044
Security	**58,697**	58,654
Representative expenses	**113,470**	51,140
Office supplies	**63,922**	68,407
Penalties paid	**1,878**	1,550
Operations with precious metals	**-**	4,592
Deposit insurance	**260,989**	179,348
Computer software maintenance	**41,001**	41,001
Cash collection services	**69,336**	69,336
Loss on impairment of PPE	**89,434**	16,122
Loss on disposal of PPE	**16,731**	17,021
Loss on impairment of repossessed assets	**-**	183,065
Loss on disposal of repossessed assets	**82,385**	40,109
Other expenses	**149,653**	153,725
Total other expense	**3,150,583**	2,912,720

13 Income tax expense

In thousand Armenian drams	2016	2015
Current tax expense	**149,795**	98,150
Deferred tax	**(125,246)**	89,678
Total income tax expense	**24,549**	187,828

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2015: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit/(loss) is provided below:

In thousand Armenian drams	**2016**	**Effective rate (%)**	2015	Effective rate (%)
Profit/(loss) before tax	**(418,669)**		546,309	
Income tax at the rate of 20%	**(83,734)**	**(20)**	109,262	20
Non-taxable income	**(7,480)**	**(2)**	(24,001)	(4)
Other taxable income	**4,687**	**1**	1,777	-
Non-deductible expenses	**96,073**	**23**	126,531	23
Gains less losses from derivatives	**51,294**	**12**	9,224	1
Foreign exchange gains	**(36,291)**	**(9)**	(34,965)	(6)
Income tax expense	**24,549**	**5**	187,828	34

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of 31 December 2015**	**Recognized in profit or loss**	**Recognized in equity**	**As of 31 December 2016**
Other liabilities	**52,083**	**10,763**	**-**	**62,846**
Securities available for sale	**229,565**	**-**	**(132,962)**	**96,603**
Other assets	**36,613**	**(36,613)**	**-**	**-**
Total deferred tax assets	**318,261**	**(25,850)**	**(132,962)**	**159,449**
Contingent liabilities	**(22,642)**	**126**	**-**	**(22,516)**
Amounts due from other financial institutions	**(7,030)**	**(2,933)**	**-**	**(9,963)**
Loans and advances to customers	**(922,286)**	**152,149**	**-**	**(770,137)**
PPE	**(97,344)**	**1,754**	**(219,221)**	**(314,811)**
Total deferred tax liability	**(1,049,302)**	**151,096**	**(219,221)**	**(1,117,427)**
Net deferred tax liability	**(731,041)**	**125,246**	**(352,183)**	**(957,978)**

In thousand Armenian drams	As of 31 December 2014	Recognized in profit or loss	Recognized in equity	As of 31 December 2015
Other liabilities	63,388	(11,305)	-	52,083
Securities available for sale	135,932	-	93,633	229,565
Other assets	-	36,613	-	36,613
Total deferred tax assets	199,320	25,308	93,633	318,261
Contingent liabilities	(20,665)	(1,977)	-	(22,642)
Amounts due from other financial institutions	(8,360)	1,330	-	(7,030)
Loans and advances to customers	(806,744)	(115,542)	-	(922,286)
PPE	(89,390)	1,203	(9,157)	(97,344)
Total deferred tax liability	(925,159)	(114,986)	(9,157)	(1,049,302)
Net deferred tax liability	(725,839)	(89,678)	84,476	(731,041)

14 Earnings/(loss) per share

In thousand Armenian drams	2016	2015
Profit/(loss) for the year	**(443,218)**	358,481
Dividends on preferred shares	**(160,053)**	(202,998)
Income/(loss) less dividends on preferred shares	**(603,271)**	155,483
Weighted average number of ordinary shares	**173,320,463**	99,163,757
Earnings/(loss) per share – basic	**(0.00348)**	0.00157

15 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Cash on hand	**7,186,662**	7,147,554
Correspondent account with the CBA	**23,274,349**	15,849,237
Placements with other banks	**3,086,625**	3,016,032
Total cash and cash equivalents	**33,547,636**	26,012,823

As at 31 December 2016 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 15,656,074 thousand (2015: 2% and 20% respectively, AMD 14,289,553 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

As at 31 December 2016 the accounts in amount of AMD 2,439,644 thousand (79%) (2015: AMD 2,130,517 thousand (71%)) were due from two commercial banks.

Non-cash transactions performed by the Bank during 2016 are represented by:

- repayment of AMD 3,595,345 thousand loan by transfer of property rights on pledge (2015: AMD 408,225 thousand).

16 Amounts due from financial institutions

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Deposited funds with the CBA	**510,000**	510,000
Reverse repurchased agreements	**2,002,157**	-
Deposits in financial institutions	**736,357**	735,854
Loans to financial institutions	**20,033**	-
Total amounts due from other financial institutions	**3,268,547**	1,245,854

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2016 are presented as follows:

In thousand Armenian drams	2016		2015	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
RA state securities	**2,123,227**	**2,002,157**	-	-
Total assets pledged and loans under reverse repurchase agreements	**2,123,227**	**2,002,157**	-	**-**

17 Derivative financial instruments

In thousand Armenian drams	2016			2015		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – foreign currency	**1,693,790**	**99,004**	**-**	-	-	-
Total derivative financial instruments	**1,693,790**	**99,004**	**-**	-	-	-

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

18 Loans and advances to customers

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Loans to customers	**104,462,281**	94,018,528
Overdraft	**20,108,572**	20,736,215
	124,570,853	114,754,743
Less allowances for impairment of loans and advances	**(5,943,790)**	(4,573,195)
Total loans and advances to customers	**118,627,063**	110,181,548

As of 31 December 2016 accrued interest included in loans and advances to customers amounted to AMD 7,568,148 thousand (2015: AMD 6,576,740 thousand).

As of 31 December 2016 the average effective interest rates on loans and advances to corporate customers were 13.65% for loans in AMD, 13.28% for loans in USD, 15.41% for loans in RUB, 12.79% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 21.66% for loans in AMD, 14.39% for loans in USD, 12.19% for loans in EUR, 19.49% for loans in RUB (2015: on loans and advances to corporate customers 16.09% for loans in AMD, 15.3% for loans in USD, 14.16% for loans in EUR, and to individuals 25.46%for loans in AMD, 17.59% for loans in USD, 11.92% for loans in EUR, 19.49% for loans in RUB).

As of 31 December 2016, the Bank had a concentration of loans represented by AMD 27,772,226 thousand due from the 15 largest third party entities and parties related with them (22% of gross loan portfolio) (2015: AMD 23,339,952 thousand or 20% due from the 15 largest third party entities and parties related with them). An allowance of AMD 1,308,341 thousand (2015: AMD 1,496,852 thousand) was made against these loans.

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

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Manufacture	**9,859,654**	9,503,504
Agriculture	**702,761**	684,061
Construction	**5,487,155**	4,542,902
Transportation	**3,916,190**	4,235,454
Trade	**24,952,250**	23,902,749
Services	**8,879,170**	8,888,679
Consumer	**47,898,778**	41,191,322
Mortgage	**12,600,173**	14,162,071
Other	**10,274,722**	7,644,001
	124,570,853	114,754,743
Less allowances for impairment of loans and advances	**(5,943,790)**	(4,573,195)
Total loans and advances	**118,627,063**	110,181,548

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

In thousand Armenian drams										**2016**
	Manu-facture	**Agri-culture**	**Const-ruction**	**Transport**	**Trading**	**Services**	**Con-sumer**	**Mort-gage**	**Other**	**Total**
At 1 January 2016	**266,353**	**21,000**	**85,468**	**504,175**	**1,248,540**	**1,068,221**	**946,317**	**352,011**	**81,110**	**4,573,195**
Charge/(reversal) for the year	**286,698**	**15,763**	**213,934**	**207,889**	**564,577**	**(292,011)**	**2,657,130**	**320,845**	**454,287**	**4,429,112**
Amounts written off	**(376,348)**	**(17,791)**	**(4,609)**	**(244,320)**	**(671,174)**	**(248,097)**	**(3,097,785)**	**(454,972)**	**(893)**	**(5,115,989)**
Recoveries	**290,029**	**5,405**	**29,548**	**37,015**	**584,870**	**21,367**	**721,727**	**313,149**	**54,362**	**2,057,472**
At 31 December 2016	**466,732**	**24,377**	**324,341**	**504,759**	**1,726,813**	**549,480**	**1,227,389**	**531,033**	**588,866**	**5,943,790**
Individual impairment	**377,928**	**17,643**	**275,797**	**496,938**	**1,529,388**	**502,611**	**215,537**	**301,106**	**502,630**	**4,219,578**
Collective impairment	**88,804**	**6,734**	**48,544**	**7,821**	**197,425**	**46,869**	**1,011,852**	**229,927**	**86,236**	**1,724,212**
	466,732	**24,377**	**324,341**	**504,759**	**1,726,813**	**549,480**	**1,227,389**	**531,033**	**588,866**	**5,943,790**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**979,218**	**29,404**	**632,716**	**3,134,141**	**5,217,432**	**4,192,285**	**408,659**	**921,433**	**1,009,624**	**16,524,912**

In thousand Armenian drams										2015
	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2015	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Charge/(reversal) for the year	(817,497)	46,254	(156,456)	179,745	111,710	(21,885)	2,673,973	362,396	13,918	2,392,158
Amounts written off	(114,666)	(37,863)	(26,917)	(89,635)	(526,328)	(6,566)	(3,255,347)	(408,053)	(6,288)	(4,471,663)
Recoveries	185,658	4,823	221,111	3,400	583,372	94,815	845,301	197,255	848	2,136,583
At 31 December 2015	266,353	21,000	85,468	504,175	1,248,540	1,068,221	946,317	352,011	81,110	4,573,195
Individual impairment	181,249	14,399	46,364	494,971	1,035,908	1,049,140	337,451	242,513	4,873	3,406,868
Collective impairment	85,104	6,601	39,104	9,204	212,632	19,081	608,866	109,498	76,237	1,166,327
	266,353	21,000	85,468	504,175	1,248,540	1,068,221	946,317	352,011	81,110	4,573,195
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	993,073	23,999	632,471	3,315,050	2,639,554	6,980,571	600,288	3,212,230	20,303	18,417,539

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

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
State owned enterprises	**323,214**	323,190
Privately held companies	**51,531,905**	47,031,132
Individuals	**61,433,218**	56,288,029
Sole proprietors	**11,282,516**	11,112,392
	124,570,853	114,754,743
Less allowance for impairment of loans and advances	**(5,943,790)**	(4,573,195)
Total loans and advances to customers	**118,627,063**	110,181,548

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Mortgage loans	**12,600,173**	14,162,071
Consumer loans	**47,350,203**	39,886,245
Car loans	**537,475**	1,305,077
Other	**945,367**	934,636
Total loans and advances to individuals	**61,433,218**	56,288,029

As at 31 December 2016 and 2015 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 32.

Other analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

Maturity analysis of loans and advances to customers are disclosed in Note 34.

19 Available-for-sale investments

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
RA state bonds	**13,902,603**	4,177,724
Corporate bonds	**484,661**	221,447
Total investments	**14,399,954**	4,411,861

All debt securities have fixed coupons.

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

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

In thousand Armenian drams		2016		2015
	%	Maturity	%	Maturity
RA state bonds	**5.72-14.94%**	**2018-2028**	6.23-14.10%	2015-2028

As of 31 December 2015 available-for-sale debt securities at fair value of AMD 4,136,760 thousand were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

All unquoted available-for-sale shares are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
COST AND REVALUED AMOUNT						
At January 1, 2015	3,400,400	385,217	1,020,942	297,181	2,386,881	7,490,621
Additions	50,010	25,598	71,625	2,198	225,687	375,118
Disposals	-	(5,753)	(36,697)	(119,852)	(80,699)	(243,001)
Revaluation of PPE	149,663	-	-	-	-	149,663
Depreciation adjustment as a result of revaluation	(233,719)	-	-	-	-	(233,719)
At 31 December 2015	**3,366,354**	**405,062**	**1,055,870**	**179,527**	**2,531,869**	**7,538,682**
Additions	**1,150,991**	**36,811**	**133,312**	**2,526**	**707,843**	**2,031,483**
Disposals	**(94,314)**	**-**	**(30,759)**	**-**	**(30,092)**	**(155,165)**
Revaluation of PPE	**1,006,672**	**-**	**-**	**-**	**-**	**1,006,672**
Depreciation adjustment as a result of revaluation	**(120,938)**	**-**	**-**	**-**	**-**	**(120,938)**
Reclassification	**299,994**	**(299,994)**	**-**	**-**	**-**	**-**
At 31 December 2016	**5,608,759**	**141,879**	**1,158,423**	**182,053**	**3,209,620**	**10,300,734**
ACCUMULATED DEPRECIATION						
At January 1, 2015	185,313	87,357	636,889	118,705	1,319,901	2,348,165
Depreciation charge	57,955	10,715	95,413	32,006	216,863	412,952
Disposals	-	(5,753)	(36,097)	(69,968)	(42,240)	(154,058)
Depreciation adjustment as a result of revaluation	(233,719)	-	-	-	-	(233,719)
At 31 December 2015	**9,549**	**92,319**	**696,205**	**80,743**	**1,494,524**	**2,373,340**
Depreciation charge	**68,867**	**6,222**	**129,216**	**26,060**	**219,648**	**450,013**
Disposals	**(1,813)**	**-**	**(30,236)**	**-**	**(21,345)**	**(53,394)**
Depreciation adjustment as a result of revaluation	**(120,938)**	**-**	**-**	**-**	**-**	**(120,938)**
Reclassification	**56,177**	**(56,177)**	**-**	**-**	**-**	**-**
At 31 December 2016	**11,842**	**42,364**	**795,185**	**106,803**	**1,692,827**	**2,649,021**
CARRYING VALUE						
At 31 December 2016	**5,596,917**	**99,515**	**363,238**	**75,250**	**1,516,793**	**7,651,713**
At 31 December 2015	3,356,805	312,743	359,665	98,784	1,037,345	5,165,342

Revaluation of assets

The land and buildings owned by the Bank were evaluated by an independent appraiser in December 2016 using the comparative sales methods resulting in a net decrease in amount of AMD 1,006,672 thousand (2015: AMD 149,663 thousand). Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 4,512,820 thousand as at 31 December 2016 (2015: AMD 3,192,114 thousand).

Fully depreciated items

As at 31 December 2016 fixed assets included fully depreciated and amortized assets in cost of AMD 1,203,695 thousand (2015: AMD 1,036,034 thousand).

Fixed assets in the phase of installation

As at 31 December 2016 fixed assets included assets in the phase of installation amounting AMD 737,736 thousand, containing buildings in amount of AMD 18,200 thousand (2015: AMD 466,468 thousand, containing buildings in amount of AMD 17,830 thousand)

Restrictions on title of fixed assets

As at 31 December 2016, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2016, the Bank had no contractual commitment in respect of investments in fixed assets (2015: nil).

21 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2015	922,811	535,272	100,433	1,558,516
Additions	8,027	132,035	-	140,062
At 31 December 2015	**930,838**	**667,307**	**100,433**	**1,698,578**
Additions	**6,104**	**143,720**	**588**	**150,412**
Disposals	**-**	**(115)**	**-**	**(115)**
At 31 December 2016	**936,942**	**810,912**	**101,021**	**1,848,875**
AMORTISATION				
At January 1, 2015	113,086	133,564	57,084	303,734
Amortisation charge	58,510	19,898	2,388	80,796
At 31 December 2015	**171,596**	**153,462**	**59,472**	**384,530**
Amortisation charge	**56,491**	**25,470**	**2,398**	**84,359**
Disposals	**-**	**(115)**	**-**	**(115)**
At 31 December 2015	**228,087**	**178,817**	**61,870**	**468,774**
CARRYING VALUE				
At 31 December 2016	**708,855**	**632,095**	**39,151**	**1,380,101**
At 31 December 2015	759,242	513,845	40,961	1,314,048

Contractual commitments

As at 31 December 2016, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2016, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2016, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 534,750 thousand (2015: AMD 580,189 thousand).

22 Other assets

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Prepayments and other debtors	**488,267**	1,264,949
Accounts receivable	**153,094**	39,996
Other assets	**564,424**	343,092
	1,205,785	1,648,037
Less allowance for impairment	**(10,522)**	(16,081)
	1,195,263	1,631,956
Repossessed assets	**4,993,452**	3,601,921
Other prepaid taxes	**-**	1,565
Materials	**96,273**	99,758
Precious metals	**56,073**	52,343
Total other assets	**6,341,061**	5,387,543

Repossessed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

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

In thousand Armenian drams	Total
At January 1, 2015	9,844
Charge for the year	6,237
At 31 December 2015	**16,081**
Charge for the year	**7,856**
Reversal for the year	**(13,415)**
At 31 December 2016	**10,522**

23 Amounts due to financial institutions

In thousand Armenian drams	As of 31 December 2016	As of 31 December 2015
Correspondent accounts of other banks	**4,217**	84,849
Current accounts of other financial institutions	**84,011**	47,836
Loans from financial institutions	**4,006,148**	17,117,304
Loans under repurchase agreements	**-**	4,002,028
Deposits from financial institutions	**948,312**	1,003,495
Total amounts due to financial institutions	**5,042,688**	22,255,512

As of 31 December 2016 the average effective interest rates on amounts due to financial institutions was 8.98% for borrowings in AMD (2015: 9.79%) and 6.2% for borrowings in USD (2015: 6.8%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2015: nil).

24 Amounts due to customers

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Corporate customers		
Current/Settlement accounts	**6,338,541**	6,536,569
Time deposits	**21,520,427**	6,997,688
	27,858,968	13,534,257
Retail customers		
Current/Demand accounts	**6,870,910**	5,614,865
Time deposits	**93,282,691**	84,461,903
	100,153,601	90,076,768
Total amounts due to customers	**128,012,569**	103,611,025

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2016 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 15,228,974 thousand (2015: AMD 7,011,401 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2016 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 28,217,786 thousand (2015: AMD 8,724,848 thousand) or 22% of total retail and corporate customer accounts (2015: 9.5%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2015: nil).

As of 31 December 2016 the average effective interest rates on amounts due to corporate customers were 13.2% for liabilities in AMD, 5.93% for liabilities in USD, 3.73% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 13.27% for liabilities in AMD, 6.24% for liabilities in USD, 6.6% for liabilities in EUR (2015: for corporate customers 13.59% for liabilities in AMD, 8.85% for liabilities in USD, 7.56% for liabilities in EUR, and for individuals 17.33% for liabilities in AMD, 7.66% for liabilities in USD, 6.6% for liabilities in EUR).

25 Borrowings

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Subordinated debt provided by non-financial organizations	**7,714,584**	5,273,785
Loans from RA Government	**3,125,813**	559,699
Other borrowing	**2,419,990**	2,237,706
Total subordinated debt	**13,260,387**	8,071,190

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of "Rural Areas Development Programme" and "Economy stabilization lending programme". Loans carry fixed interest rates.

The Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 31).

As of 31 December 2016 the average effective interest rate on amounts due to Government of the RA was 7.39% for loans in AMD, 4.06% for loans in USD (2015: the average effective interest rate was 7.15% for loans in AMD, 4.06% for loans in USD).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2015: nil).

As of 31 December 2016 average weighted interest rate of borrowings was 12.87% (2015: 10.28%).

26 Debt securities issued

In thousand Armenian drams	**2016**	2015
Non-current bonds	**2,652,531**	-
Total debt securities issued	**2,652,531**	-

During 2016 18,482 nominal coupon bonds have been issued with nominal value of AMD 10,000, 13.5% of interest rate and maturing up to 2018.

During 2016 50,000 nominal coupon bonds have been issued with nominal value of USD 100, 8% of interest rate and maturing up to 2018.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

27 Other liabilities

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Accounts payables	**155,691**	114,587
Dividends payable	**-**	86,797
Due to personnel	**214,485**	155,135
Total other financial liabilities	**370,176**	356,519
Tax payable, other than income tax	**197,717**	304,350
Revenues of future periods	**59,000**	41,596
Prepayments received	**-**	59,535
Total other non-financial liabilities	**256,717**	405,481
Total other liabilities	**626,893**	762,000

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2016	2015	**2016**	2015
Investment securities (Note 19, 23)	**-**	4,136,760	**-**	4,002,028
	-	4,136,760	**-**	4,002,028

29 Equity

As at 31 December 2016 the Bank's registered and paid-in share capital was AMD 19,093,378 thousand. In accordance with the Bank's statute, the share capital consists of 158,923,780 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

The respective shareholdings as at 31 December 2016 and 2015 may be specified as follow:

In thousand Armenian drams	**2016**		2015	
	Paid-in share capital	**% of total paid-in capital**	**Paid-in share capital**	**% of total paid-in capital**
Ripatonso Holdings Ltd	**16,805,935**	**88**	-	-
Sfikaro Investments Ltd	**1,231,903**	**6**	-	-
Glovery Holding Ltd	**-**	**-**	13,100,700	92
Arolova Enterprises Ltd	**708,284**	**4**	509,395	4
Amixon Business Ltd	**-**	**-**	350,000	2
Other	**347,256**	**2**	207,852	2
	19,093,378	**100**	14,167,947	100

As at 31 December 2016 the Bank did not possess any of its own shares.

In 2016 the Bank increased its share capital by AMD 11,328,490 thousand, from which the share premium was AMD 6,403,059 thousand (2015: AMD 2,454,669 thousand, from which the share premium was AMD 1,387,422 thousand). The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2016 the dividends for preference shareholders recognized in the financial statements amounted to AMD 160,053 thousand (2015: AMD 202,998 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Undrawn loan commitments	**3,808,689**	3,468,061
Guarantees	**2,184,384**	1,612,800
Total commitments and contingent liabilities	**5,993,073**	5,080,861

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

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

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Not later than 1 year	**331,816**	662,481
Later than 1 year and not later than 5 years	**625,668**	1,844,972
Later than 5 years	**46,719**	73,395
Total operating lease commitments	**1,004,203**	2,580,848

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 20 and 21.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partially coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

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

In thousand Armenian drams	**As of 31 December 2016**		As of 31 December 2015	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of financial position				
Assets				
Loans and advances to customers				
Loans outstanding at January 1, gross	**239,451**	**208,518**	246,962	578,709
Loans issued during the year	**3,551,055**	**148,155**	2,477	215,676
Loan repayments during the year	**(139,519)**	**(158,691)**	(9,988)	(585,867)
Loans outstanding at 31 December gross	**3,650,987**	**197,982**	239,451	208,518
Less: allowance for loan impairment	**(36,510)**	**(1,980)**	(2,395)	(2,085)
Loans outstanding at December 31	**3,614,477**	**196,002**	237,056	206,433
Amounts due from other financial institutions				
At January 1	**566,731**	**-**	540,238	-
Increase	**53,838,524**	**-**	83,418,690	-
Decrease	**(54,048,972)**	**-**	(83,392,197)	-
At December 31	**356,283**	**-**	566,731	-
Liabilities				
Amounts due to financial institutions				
At January 1	**874,173**	**-**	890,535	-
Increase	**6,670,222**	**-**	7,623,634	-
Decrease	**(7,104,244)**	**-**	(7,639,996)	-
At December 31	**440,151**	**-**	874,173	-

In thousand Armenian drams	**As of 31 December 2016**		As of 31 December 2015	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Amounts due to customers				
At January 1	**671,531**	**192,156**	362,014	624,226
Deposits received during the year	**35,735,685**	**1,609,908**	31,543,725	2,052,752
Deposits repaid during the year	**(35,957,424)**	**(1,560,870)**	(31,234,208)	(2,484,822)
At December 31	**449,792**	**241,194**	671,531	192,156
Borrowings				
At January 1	**7,511,491**	**-**	11,466,893	-
Received during the year	**43,330,941**	**-**	33,042,171	-
Repaid during the year	**(40,707,858)**	**-**	(36,997,573)	-
Borrowings at December 31	**10,134,574**	**-**	7,511,491	-
Statement of profit or loss and other comprehensive income				
Interest and similar income	**210,410**	**24,052**	37,373	21,109
Interest and similar expenses	**(1,273,155)**	**(50,748)**	(2,071,004)	(48,983)
Charge/(recovery) of credit losses	**(34,115)**	**105**	(75)	(3,702)
Operating lease expenses	**(307,473)**	**-**	(312,000)	-
Insurance payments	**(35,121)**	**-**	(41,923)	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-21%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Salaries and bonuses	**590,026**	631,517
Total key management compensation	**590,026**	631,517

32 Fair value measurement

The Bank's Management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, buildings and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the Bank's management.

At each reporting date, the Bank's Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank's Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams					**As of 31 December 2016**
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**33,547,636**	**-**	**33,547,636**	**33,547,636**
Amounts due from other financial institutions	**-**	**3,268,547**	**-**	**3,268,547**	**3,268,547**
Loans and advances to customers	**-**	**118,627,063**	**-**	**118,627,063**	**118,627,063**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**-**	**5,042,688**	**-**	**5,042,688**	**5,042,688**
Amounts due to customers	**-**	**128,012,569**	**-**	**128,012,569**	**128,012,569**
Borrowings	**-**	**13,260,387**	**-**	**13,260,387**	**13,260,387**
Debt securities issued	**-**	**2,695,156**	**-**	**2,695,156**	**2,652,531**
Other financial liabilities	**-**	**370,176**	**-**	**370,176**	**370,176**

In thousand Armenian drams					As of 31 December 2015
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	26,012,823	-	26,012,823	26,012,823
Amounts due from other financial institutions	-	1,245,854	-	1,245,854	1,245,854
Loans and advances to customers	-	110,181,548	-	110,181,548	110,181,548
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	22,255,512	-	22,255,512	22,255,512
Amounts due to customers	-	103,611,025	-	103,611,025	103,611,025
Borrowings	-	8,071,190	-	8,071,190	8,071,190
Other financial liabilities	-	356,519	-	356,519	356,519

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 24% per annum.

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

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	**As of 31 December 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Investments available for sale	**-**	**14,387,264**	**-**	**14,387,264**
Derivative financial assets	**-**	**99,004**	**-**	**99,004**
Total	**-**	**14,486,268**	**-**	**14,486,268**

In thousand Armenian drams	As of 31 December 2015			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments available for sale	-	8,535,931	-	8,535,931
Total	-	8,535,931	-	8,535,931

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

Unlisted equity investments.

The fair value of Bank's investments in unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to Note 19 for further information about this equity investment.

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	**As of 31 December 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	**5,608,759**	**5,608,759**
Total non-financial assets	-	-	**5,608,759**	**5,608,759**
NET FAIR VALUE	**-**	**-**	**5,608,759**	**5,608,759**

In thousand Armenian drams			As of 31 December 2015	
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	3,366,354	3,366,354
Total non-financial assets	-	-	3,366,354	3,366,354
NET FAIR VALUE	-	-	3,366,354	3,366,354

Fair value measurements in Level 3

The Bank's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets and non-financial obligations within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	**As of 31 December 2016**	
	Property plant equipment	**Total**
NON FINANCIAL ASSETS		
Balance as at 1 January 2016	**3,366,354**	**3,366,354**
Net loss from impairment recognized in comprehensive income	**(89,434)**	**(89,434)**
Depreciation adjustment as a result of revaluation of PPE	**(120,938)**	**(120,938)**
Gain recognised in other comprehensive income	**1,096,106**	**1,096,106**
Additions	**1,450,985**	**1,450,985**
Disposal	**(94,314)**	**(94,314)**
Balance as at 31 December, 2016	**5,608,759**	**5,608,759**
NET FAIR VALUE	**5,608,759**	**5,608,759**

In thousand Armenian drams	2015	
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2015	3,400,400	3,400,400
Net gain from impairment recognized in comprehensive income	103,881	103,881
Depreciation adjustment as a result of revaluation of PPE	(233,719)	(233,719)
Gains recognised in other comprehensive income	45,782	45,782
Additions	50,010	50,010
Balance as at 31 December, 2015	3,366,354	3,366,354
NET FAIR VALUE	3,366,354	3,366,354

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with Management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams				**As at 31 December 2016**		
	Gross amount of recognised financial assets/ liabilities	**Gross amount of recognised financial assets/ liabilities in the statement of financial position**	**Net amount of financial assets/ liabilities in the statement of financial position**	**Related amounts that are not offset in the statement of financial position**		
				Financial instruments	**Cash collateral received**	**Net**
Financial assets						
Loans under reverse repurchase agreements (Note 16)	**2,002,157**	-	**2,002,157**	**2,002,157**	-	-

In thousand Armenian drams				As at 31 December 2015		
	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial assets/ liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans under repurchase agreements (Note 23)	4,002,028	-	4,002,028	4,136,760	-	134,732

34 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	As of 31 December 2016							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash and cash equivalents	33,547,636	-	-	33,547,636	-	-	-	33,547,636
Amounts due from other financial institutions	1,145,320	40,950	-	1,186,270	1,032,067	1,050,210	2,082,277	3,268,547
Derivative financial assets	99,004	-	-	99,004	-	-	-	99,004
Loans and advances to customers	18,813,969	17,949,658	27,732,206	64,495,833	45,502,662	8,628,568	54,131,230	118,627,063
Investments available for sale	3,213	363,099	1,367	367,679	10,060,199	3,972,076	14,032,275	14,399,954
	53,609,142	18,353,707	27,733,573	99,696,422	56,594,928	13,650,854	70,245,782	169,942,204
LIABILITIES								
Amounts due to financial institutions	193,962	979,024	1,252,654	2,425,640	1,491,262	1,125,786	2,617,048	5,042,688
Amounts due to customers	13,244,946	49,962,689	56,480,483	119,688,118	3,833,132	4,491,319	8,324,451	128,012,569
Borrowings	256,949	-	10,145,994	10,402,943	2,857,444	-	2,857,444	13,260,387
Debt securities issued	-	8,820	-	8,820	2,643,711	-	2,643,711	2,652,531
Other liabilities	305,665	64,511	-	370,176	-	-	-	370,176
	14,001,522	51,015,044	67,879,131	132,895,697	10,825,549	5,617,105	16,442,654	149,338,351
Net position	39,607,620	(32,661,337)	(40,145,558)	(33,199,275)	45,769,379	8,033,749	53,803,128	20,603,853
Accumulated gap	39,607,620	6,946,283	(33,199,275)		12,570,104	20,603,853		

In thousand Armenian drams	As of 31 December 2015							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	26,012,823	-	-	26,012,823	-	-	-	26,012,823
Amounts due from other financial institutions	735,854	-	-	735,854	-	510,000	510,000	1,245,854
Loans and advances to customers	17,333,604	17,623,158	21,570,598	56,527,360	44,080,251	9,573,937	53,654,188	110,181,548
Investments available for sale	-	4,984	-	4,984	4,406,877	-	4,406,877	4,411,861
Securities pledged under repurchase agreements	136,988	-	-	136,988	3,999,772	-	3,999,772	4,136,760
	44,219,269	17,628,142	21,570,598	83,418,009	52,486,900	10,083,937	62,570,837	145,988,846
LIABILITIES								
Amounts due to financial institutions	368,574	12,974,322	5,264,701	18,607,597	2,635,713	1,012,202	3,647,915	22,255,512
Amounts due to customers	12,103,737	46,552,905	44,344,798	103,001,440	360,788	248,797	609,585	103,611,025
Borrowings	1,334	559,699	-	561,033	2,352,488	5,157,669	7,510,157	8,071,190
Other liabilities	87,639	268,880	-	356,519	-	-	-	356,519
	12,561,284	60,355,806	49,609,499	122,526,589	5,348,989	6,418,668	11,767,657	134,294,246
Net position	31,657,985	(42,727,664)	(28,038,901)	(39,108,580)	47,137,911	3,665,269	50,803,180	11,694,600
Accumulated gap	31,657,985	(11,069,679)	(39,108,580)		8,029,331	11,694,600		

35 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank 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 Bank's strategic planning process.

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

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

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

35.1 Credit risk

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

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

35.1.1 Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**30,584,486**	**2,026,819**	**936,331**	**33,547,636**
Amounts due from other financial institutions	**2,604,781**	**663,766**	**-**	**3,268,547**
Loans and advances to customers		**99,004**		**99,004**
Derivative financial assets	**111,176,546**	**-**	**7,450,517**	**118,627,063**
Investments available for sale	**14,295,129**	**104,825**	**-**	**14,399,954**
As at 31 December 2016	**158,660,942**	**2,894,414**	**8,386,848**	**169,942,204**
As at 31 December 2015	140,512,614	2,645,366	2,830,866	145,988,846

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	**33,547,636**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33,547,636**
Amounts due from other financial institutions	**3,268,547**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**3,268,547**
Derivative financial assets	**99,004**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**99,004**
Loans and advances to customers	**-**	**9,392,922**	**678,384**	**5,162,814**	**3,411,431**	**23,225,437**	**8,329,690**	**46,671,389**	**12,069,140**	**9,685,856**	**118,627,063**
Investments available for sale	**14,399,954**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,399,954**
As at 31 December 2016	**51,315,141**	**9,392,922**	**678,384**	**5,162,814**	**3,411,431**	**23,225,437**	**8,329,690**	**46,671,389**	**12,069,140**	**9,685,856**	**169,942,204**
As at 31 December 2015	35,807,298	9,237,151	663,061	4,457,434	3,731,279	22,654,209	7,820,458	40,245,005	13,810,060	7,562,891	145,988,846

35.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Bank.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Loans collateralized by real estate	**72,885,020**	71,796,633
Loans collateralized by movable property	**1,482,968**	1,482,968
Loans collateralized by goods in circulation	**277,432**	277,432
Loans collateralized by guarantees	**6,313,192**	6,313,192
Loans collateralized by cash	**3,514,323**	3,514,323
Loans collateralized by household appliances	**14,083,535**	14,083,535
Unsecured loans	**26,014,383**	17,286,660
Total loans and advances to customers (gross)	**124,570,853**	114,754,743

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

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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 Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**As of 31 December 2016**	As of 31 December 2015
Loans and advances to customers		
Manufacture	**1%**	**1%**
Agriculture	**1%**	**1%**
Construction	**1%**	**1%**
Transportation	**1%**	**1%**
Trade	**1%**	**1%**
Service	**1%**	**1%**
Consumer	**2.13%**	**1.5%**
Mortgage	**1%**	**1%**

As of 31 December 2016 and 2015 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

In thousand Armenian drams	As of 31 December 2016				
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**529,141**	**17,314**	**149,489**	**3,548,039**	**4,243,983**
Agriculture	**6,491**	**-**	**118,658**	**217,435**	**342,584**
Construction	**-**	**131,428**	**-**	**648,750**	**780,178**
Transportation	**23,860**	**-**	**-**	**235437**	**259,297**
Trade	**922,821**	**880,014**	**390,715**	**4,706,992**	**6,900,542**
Service	**44,982**	**12,798**	**40,711**	**1,165,841**	**1,264,332**
Consumer	**849,411**	**431,530**	**242,150**	**2,080,445**	**3,603,536**
Mortgage	**358,755**	**97,229**	**16,322**	**779,840**	**1,252,146**
Other	**5,294**	**-**	**-**	**2,723,537**	**2,728,831**
Total	**2,740,755**	**1,570,313**	**958,045**	**16,106,316**	**21,375,429**

In thousand Armenian drams	As of 31 December 2015				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	65,076	4,071	-	633,708	702,855
Agriculture	4,497	-	-	52,808	57,305
Construction	5,661	-	-	60,322	65,983
Transportation	25,451	9,178	20,840		55,469
Trade	159,746	140,002	140,264	1,393,896	1,833,908
Service	58,628	6,906	21,791	264,183	351,508
Consumer	717,100	303,368	244,112	1,735,896	3,000,476
Mortgage	196,509	128,105	59,053	617,449	1,001,116
Other	3,532	-	-	14,368	17,900
Total	1,236,200	591,630	486,060	4,772,630	7,086,520

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

35.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 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 total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams

			As of 31 December 2016				
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1**	**-**	**-**	**-**	**179,801**	**162,253**	**342,054**
USD	**+1**	**(24,197)**	**-**	**-**	**-**	**-**	**(24,197)**
AMD	**(1)**	**-**	**-**	**-**	**(185,243)**	**(175,682)**	**(360,925)**
USD	**(1)**	**24,197**	**-**	**-**	**-**	**-**	**24,197**

In thousand Armenian drams

			As of 31 December 2015				
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1	-	-	-	152,505	-	152,505
USD	+1	(37,239)	-	-	73,113	-	35,874
AMD	(1)	-	-	-	(146,126)	-	(146,126)
USD	(1)	37,239	-	-	(69,744)	-	(32,505)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities).

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	As of 31 December 2016		As of 31 December 2015	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	(168,715)	+5	(164,207)
EUR	+5	(4,394)	+5	(603)
USD	(5)	168,715	(5)	164,207
EUR	(5)	4,394	(5)	603

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	16,643,379	16,334,846	569,411	33,547,636
Amounts due from other financial institutions	2,512,358	756,189		3,268,547
Loans and advances to customers	55,253,407	60,950,279	2,423,377	118,627,063
Investments available for sale	12,029,919	2,370,035	-	14,399,954
	86,439,063	80,411,349	2,992,788	169,843,200
LIABILITIES				
Amounts due to financial institutions	2,348,609	2,691,932	2,147	5,042,688
Amounts due to customers	58,243,087	68,339,138	1,430,344	128,012,569
Borrowings	3,032,333	10,228,054		13,260,387
Debt securities issued	187,419	2,465,112	-	2,652,531
Other financial liabilities	243,300	120,280	6,596	370,176
	64,054,748	83,844,516	1,439,087	149,338,351
Total effect of derivative financial instruments	-	1,693,790	(1,594,786)	99,004
Net position as at 31 December 2016	22,384,315	(1,739,377)	(41,085)	20,603,853
Commitments and contingent liabilities as at 31 December 2016	4,411,339	1,581,734	-	5,993,073
Total financial assets	68,012,770	77,181,253	794,823	145,988,846
Total financial liabilities	53,026,458	80,433,407	834,381	134,294,246
Net position as at 31 December 2015	14,986,312	(3,252,154)	(39,558)	11,694,600
Commitments and contingent liabilities as at 31 December 2015	3,899,778	1,181,083	-	5,080,861

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. Refer to Note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

The ratios as at 31 December 2016 are as follows:

	Not audited	
As at 31 December, these ratios were as follows:	**2016, %**	2015, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**29.09**	21.53
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**372.09**	272.06

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2016 based on contractual undiscounted repayment obligations. Refer to Note 32 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	As of 31 December 2016					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**195,491**	**995,118**	**1,347,032**	**2,087,767**	**1,688,679**	**6,314,087**
Amounts due to customers	**13,353,809**	**50,783,993**	**60,735,862**	**5,749,698**	**4,940,451**	**135,563,813**
Borrowings	**387,147**	**347,194**	**11,339,475**	**4,229,017**	**-**	**16,302,833**
Debt securities issued	**18,292**	**57,598**	**167,673**	**2,883,451**	**-**	**3,127,014**
Other financial liabilities	**87,639**	**64,511**	**-**	**-**	**-**	**152,150**
Total undiscounted financial liabilities	**14,042,378**	**52,248,414**	**73,590,042**	**14,949,933**	**6,629,130**	**161,459,897**
Derivative financial assets						
Foreign exchange swap contracts	**1,693,790**	**-**	**-**	**-**	**-**	**1,693,790**
Inflow	**(1,594,786)**	**-**	**-**	**-**	**-**	**(1,594,786)**
Outflow						
Commitments and contingent liabilities	**268,019**	**844,599**	**1,625,022**	**3,255,433**	**-**	**5,993,073**

In thousand Armenian drams	As of 31 December 2015					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	371,538	13,187,599	5,661,357	3,689,998	1,518,303	24,428,795
Amounts due to customers	12,203,220	47,887,058	47,685,844	541,182	273,677	108,590,981
Borrowings	75,420	197,563	679,121	3,763,981	5,776,589	10,492,674
Other financial liabilities	87,639	268,880	-	-	-	356,519
Total undiscounted financial liabilities	12,737,817	61,541,100	54,026,322	7,995,161	7,568,569	143,868,969
Commitments and contingent liabilities	400,342	451,204	1,885,538	2,343,777	-	5,080,861

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 34. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2016 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

36 Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, police and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and subordinated debt.

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

As of 31 December 2016 and 2015 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2016**	2015
Tier 1 capital	**26,770,726**	14,507,633
Tier 2 capital	**257,739**	3,490,367
Total regulatory capital	**27,028,465**	17,998,000
Risk-weighted assets	**155,514,758**	148,375,927
Capital adequacy ratio	**17.38%**	12.13%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

Taking into consideration the negative trend of the Bank's loan portfolio impairment, the ensuring of the marginal size of the Bank's annual profit may be endangered, consequently also the ensuring of the minimum size of the Bank's total capital, which is on the marginal level.

37 Segment reporting

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

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

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

Financial Statements and Independent Auditor's Report

“Unibank” open joint stock company

31 December 2017

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Grant Thornton

Independent auditor's report

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To the shareholders of "UNIBANK" OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of "UNIBANK" OPEN JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of matter

We draw your attention to the Note 39, which presents the political situation in Armenia and the uncertainties associated with it since 13 April 2018. According to the Bank's management assessments, these processes have no significant influence on the Bank's activity, and hence, there is no need to adjust the Bank's financial statements for the year ended 31 December 2017. Our opinion does not change with regard to this circumstance.

Key Audit Matters

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

- Loan impairment allowance

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

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

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

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

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Gagik Gyulbudaghyan	Emil Vassilyan
Managing Partner	Engagement Partner

27 April 2018

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	22,296,742	21,329,971
Interest and similar expense	6	(11,805,386)	(12,968,927)
Net interest income		10,491,356	8,361,044
Fee and commission income	7	897,588	1,036,568
Fee and commission expense	7	(298,538)	(289,585)
Net fee and commission income		599,050	746,983
Net trading income	8	631,274	270,717
Other income	9	1,732,594	1,452,759
Impairment charge	10	(5,974,493)	(4,436,968)
Staff costs	11	(3,480,771)	(3,128,249)
Depreciation of property and equipment	20	(511,350)	(450,013)
Amortization of intangible assets	21	(88,762)	(84,359)
Other expenses	12	(3,148,856)	(3,150,583)
Profit before income tax		250,042	(418,669)
Income tax expense	13	(182,440)	(24,549)
Profit/(loss) for the year		67,602	(443,218)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		255,764	1,096,106
Income tax relating to items not reclassified		(51,153)	(219,221)
Net gains from items that will not be reclassified subsequently to profit or loss		204,611	876,885
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain from changes in fair value from available-for-sale financial assets		507,685	664,809
Income tax relating to items that will be reclassified		(101,537)	(132,962)
Net gains from items that will be reclassified subsequently to profit or loss		406,148	531,847
Total other comprehensive income for the year, net of tax		610,759	1,408,732
Total comprehensive income for the year		678,361	965,514
Loss per share	14	(0.00045)	(0.00348)

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of 31 December 2017	As of 31 December 2016
Assets			
Cash and cash equivalents	15	31,843,954	33,547,636
Amounts due from other financial institutions	16	995,550	3,268,547
Derivative financial assets	17	3,086	99,004
Loans and advances to customers	18	135,127,892	118,627,063
Investments available for sale	19	13,592,031	14,399,954
Securities pledged under repurchase agreements	28	7,877,164	-
Property, plant and equipment	20	8,193,410	7,651,713
Intangible assets	21	1,420,274	1,380,101
Prepaid income taxes		113,435	81,010
Other assets	22	3,554,675	6,341,061
Total assets		202,721,471	185,396,089
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	23	17,250,526	5,042,688
Amounts due to customers	24	128,427,923	128,012,569
Derivative financial liabilities	17	9,993	-
Borrowings	25	14,744,564	13,260,387
Debt securities issued	26	5,139,360	2,652,531
Deferred income tax liabilities	13	1,131,722	957,978
Other liabilities	27	656,030	626,893
Total liabilities		167,360,118	150,553,046
Equity			
Share capital	29	20,489,653	19,093,378
Share premium		9,605,638	7,790,481
Statutory general reserve		426,482	426,482
Other reserves		1,493,358	916,048
Retained earnings		3,346,222	6,616,654
Total equity		35,361,353	34,843,043
Total liabilities and equity		202,721,471	185,396,089

The financial statements from pages 6 to 63 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on 27 April 2018 and.

Hakobyan Mesrop
Chairman of the Executive Board

Gohar Grigoryan
Chief Accountant

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of 1 January 2016	14,167,947	1,387,422	421,851	(913,720)	421,036	7,224,556	22,709,092
Increase in share capital	4,925,431	6,403,059	-	-	-	-	11,328,490
Distribution to reserve	-	-	4,631	-	-	(4,631)	-
Dividends to shareholders	-	-	-	-	-	(160,053)	(160,053)
Transactions with owners	4,925,431	6,403,059	4,631	-	-	(164,684)	11,168,437
Loss for the year	-	-	-	-	-	(443,218)	(443,218)
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	1,096,106	-	1,096,106
Net unrealized gain from changes in fair value	-	-	-	664,809	-	-	664,809
Income tax relating to components of other comprehensive income	-	-	-	(132,962)	(219,221)	-	(352,183)
Total comprehensive income for the year	-	-	-	531,847	876,885	(443,218)	965,514
Balance as of 31 December 2016	19,093,378	7,790,481	426,482	(381,873)	1,297,921	6,616,654	34,843,043
Increase in share capital	1,396,275	1,815,157	-	-	-	(3,211,432)	-
Distribution to reserve	-		-	-	-	-	-
Dividends to shareholders	-	-	-	-	-	(160,051)	(160,051)
Transactions with owners	1,396,275	1,815,157	-	-	-	(3,371,483)	(160,051)

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Profit for the year	-	-	-	-	-	67,602	67,602
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	255,764	-	255,764
Adjustment to reserve from the sale of PPE	-	-	-	-	(33,449)	33,449	-
Net unrealized gains from changes in fair value	-	-	-	507,685	-	-	507,685
Income tax relating to components of other comprehensive income	-	-	-	(101,537)	(51,153)	-	(152,690)
Total comprehensive income for the year	-	-	-	406,148	171,162	101,051	678,361
Balance as of 31 December 2017	20,489,653	9,605,638	426,482	24,275	1,469,083	3,346,222	35,361,353

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit/(loss) before tax	250,042	(418,669)
Adjustments for		
Impairment charge	5,974,493	4,436,968
Gains from reversal of impairment and sale of repossessed	(58,295)	(44,451)
Impairment of PPE	7	89,434
Amortization and depreciation allowances	600,112	534,372
Loss from sale of PPE	2,938	16,731
Interest receivable	726,148	(1,034,266)
Interest payable	(369,819)	(303,381)
Revaluation of derivative financial instruments	(29,751)	256,470
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	428,837	(181,453)
Cash flows from operating activities before changes in operating assets and liabilities	7,524,712	3,351,755
(Increase)/decrease in operating assets		
Amounts due from financial institutions	2,294,537	(2,080,268)
Derivative financial instruments	112,087	(355,474)
Loans and advances to customers	(24,857,814)	(15,285,569)
Other assets	4,681,142	2,804,772
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	1,720,527	(756)
Amounts due to customers	(293,153)	24,521,896
Other liabilities	17,143	(54,014)
Net cash flow used in operating activities before income tax	(8,800,819)	12,902,342
Income tax	(32,425)	53,276
Net cash from/(used in) operating activities	(8,833,244)	12,955,618

Statement of cash flows (continued)

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from investing activities		
Purchase of investment securities	(6,752,977)	(5,125,305)
Purchase of property and equipment	(968,266)	(2,031,483)
Proceeds from sale of property and equipment	168,038	85,040
Purchase of intangible assets	(128,935)	(150,412)
Net cash used in investing activities	(7,682,140)	(7,222,160)
Cash flow from financing activities		
Proceeds from issue of share capital	-	11,328,490
Dividends paid	(160,051)	(246,850)
Loans received/(repaid) to financial institutions	10,432,480	(17,332,058)
Issue of bonds	2,465,424	2,637,137
Other long-term loans and advances received	1,366,159	5,543,439
Net cash from financing activities	14,104,012	1,930,158
Net increase/(decrease) in cash and cash equivalents	(2,411,372)	7,663,616
Cash and cash equivalents at the beginning of the year	33,547,636	26,012,823
Exchange differences on cash and cash equivalents	707,690	(128,803)
Cash and cash equivalents at the end of the year (Note 15)	31,843,954	33,547,636
Supplementary information:		
Interest received	23,022,890	20,305,950
Interest paid	(12,175,205)	(13,272,308)

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

“Unibank” CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the “CBA”).

On 23 June 2015 according to the Bank’s license registered under number 0373, “UNIBANK” CJSC was reorganized to “UNIBANK” OJSC issuing 14,500,000 shares.

The Bank is a member of Individuals deposit compensation guarantee state system of RA , as well as member of Union of Banks of Armenia, ArCa, MasterCard, Visa International payment systems.

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and it has 45 branches in Yerevan and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

On August 24, 2016 the international rating agency Moody's Investors Service approved the Bank’s deposit attraction B3/NP rating, caa1 base credit rating, B2(cr)/NP(cr) counterparty risk rating. Forecasts on all ratings changed to positive from stable.

On March 10, 2017, the international rating agency Moody's Investors Service has revised and raised the rating of "Unibank" by setting B2 for long-term deposits in AMD and foreign currency. Baseline credit assessment (BCA) / is defined b3, and long-term Counterparty Risk Assessment (CR Assessment/ B2(cr) level. Forecasting is stable.

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*
- *Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12.*

3.5 Standards and interpretations not yet applied by the Bank

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

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

IFRS 9 Financial Instruments (2014)

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

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

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

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

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

Classification – Financial assets and Financial liabilities

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

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

A financial asset is classified into one of these categories on initial recognition. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss.

IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

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

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

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

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

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

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

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

Impairment – Financial assets, loan commitments and financial guarantee contracts

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

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

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- contract assets
- loan commitments to provide a loan at a below-market interest rate
- financial guarantee contracts

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

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

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

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

- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

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

Transition

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

– The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

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

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 16 Leases

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

IFRS 16 also:

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

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

Other standards

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income and expenses

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

Dividend income

Revenue is recognized when the Bank’s right to receive the payment is established.

Net trading income

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

4.2 Foreign currencies

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

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

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

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

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

	31 December 2017	31 December 2016
AMD/1 US Dollar	484.10	483.94
AMD/1 EUR	580.10	512.20
AMD/1 RUB	8.40	7.88

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

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

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

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

The Bank classified its financial assets into the following categories:

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

4.8 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

Operating - Bank as lessee

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

4.13 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at historical cost. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	**Rate (%)**
Buildings	60	1.67
Computers	5	20
Communication	5	20
Vehicles	7	14.3
ATM	10	10
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses.

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

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

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives. The estimated useful life of computer software and licences is 10 years. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Computer software development costs are recognised as an expense as incurred.

4.15 Repossessed assets

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

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 Equity

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation reserve

The property revaluation reserve is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity

Revaluation reserve for available-for-sale securities

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

4.19 Offsetting

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

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

4.20 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components**.** In identifying its operating segments, management generally distinguishes components of the Bank that is engaged in providing products or services (business segment) and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Bank's CEO to make decisions about resources to be allocated to the segment and assess its performance. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 32).

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Useful life of PPE

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

Derivatives

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

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to Note 31).

Impairment of loans and receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 30.

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

Impairment of available-for-sale equity investments

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

6 Interest and similar income and expense

In thousand Armenian drams	**2017**	**2016**
Loans and advances to customers	19,787,690	19,596,435
Debt investment securities available-for-sale	2,067,391	1,331,614
Amounts due to financial institutions	33,641	91,578
Reverse repurchase transactions	125,646	86,416
Interest accrued on individually impaired financial assets	266,106	187,066
Derivative financial instruments	16,268	36,862
Total interest and similar income	22,296,742	21,329,971
Amounts due to customers	9,553,380	10,268,285
Amounts due to financial institutions	431,511	927,321
Government loans	325,569	175,932
Repurchase transactions	37,482	207,360
Borrowings	1,206,733	1,255,391
Bonds issued	250,711	134,638
Total interest and similar expense	11,805,386	12,968,927

7 Fee and commission income and expense

In thousand Armenian drams	**2017**	**2016**
Cash collection	433,879	520,944
Plastic cards operations	200,476	170,710
Guarantees and letters of credit	16,522	41,689
Foreign currency translation operations	99,975	80,832
Other fees and commissions	146,736	222,393
Total fee and commission income	897,588	1,036,568
Wire transfer fees	70,300	95,529
Plastic cards operations	181,735	142,538
Foreign currency translation operations	6,447	3,410
Stock exchange services	13,638	18,420
Other expenses	26,418	29,688
Total fee and commission expense	298,538	289,585

8 Net trading income

In thousand Armenian drams	2017	2016
Gains less losses from transactions in foreign currencies	601,523	594,467
Gains less losses from derivatives	29,751	(256,470)
Loss from security operations	-	(67,280)
Total net trading income	631,274	270,717

9 Other income

In thousand Armenian drams	2017	2016
Fines and penalties received	1,273,075	1,105,394
Foreign currency translation net gains of non-trading assets and liabilities	-	181,453
Reversal of impairment of repossessed assets	93,148	126,836
Gains from operations of precious metals	7,121	3,730
Income from leased assets	341,248	-
Other income	18,002	35,346
Total other income	1,732,594	1,452,759

10 Impairment charge

In thousand Armenian drams	2017	2016
Loans and advances to customers (Note 18)	5,940,569	4,429,112
Other assets (Note 22)	33,924	7,856
Total impairment charge	5,974,493	4,436,968

11 Staff costs

In thousand Armenian drams	2017	2016
Compensations of employees, related taxes included	3,477,720	3,125,380
Staff training and other costs	3,051	2,869
Total staff costs	3,480,771	3,128,249

12 Other expenses

In thousand Armenian drams	2017	2016
Fixed assets maintenance	594,812	549,324
Advertising costs	242,762	334,651
Business trip expenses	12,453	19,620
Communications	150,716	129,651
Operating lease	462,856	669,671
Taxes, other than income tax, duties	389,813	412,076
Foreign currency translation net losses of non-trading assets	428,837	-
Consulting and other services	31,813	88,094
Security	53,869	58,697
Representative expenses	50,892	113,470
Office supplies	87,439	63,922
Penalties paid	2,118	1,878
Deposit insurance	333,306	260,989
Computer software maintenance	44,640	41,001
Cash collection services	67,948	69,336
Loss on impairment of PPE	7	89,434
Loss on disposal of PPE	2,938	16,731
Loss on disposal of repossessed assets	34,853	82,385
Other expenses	156,784	149,653
Total other expense	3,148,856	3,150,583

13 Income tax expense

In thousand Armenian drams	2017	2016
Current tax expense	161,386	149,795
Deferred tax	21,054	(125,246)
Total income tax expense	182,440	24,549

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

Numerical reconciliation between the tax expenses and accounting profit/(loss) is provided below:

In thousand Armenian drams	2017	Effective rate (%)	2016	Effective rate (%)
Profit/(loss) before tax	250,042		(418,669)	
Income tax at the rate of 20%	50,008	20	(83,734)	(20)
Non-taxable income	(26,991)	(10)	(7,480)	(2)
Other taxable income	2,186	1	4,687	1
Non-deductible expenses	65,520	26	96,073	23
Gains less losses from derivatives	5,950	2	51,294	12
Foreign exchange difference	85,767	34	(36,291)	(9)
Income tax expense	182,440	73	24,549	5

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2017
Other liabilities	62,846	10,374	-	73,220
Securities available for sale	96,603	-	(101,537)	(4,934)
Total deferred tax assets	159,449	10,374	(101,537)	68,286
Contingent liabilities	(22,516)	2,555	-	(19,961)
Amounts due from other financial institutions	(9,963)	(11,411)	-	(21,374)
Loans and advances to customers	(770,137)	(35,345)	-	(805,482)
PPE	(314,811)	12,773	(51,153)	(353,191)
Total deferred tax liability	(1,117,427)	(31,428)	(51,153)	(1,200,008)
Net deferred tax liability	(957,978)	(21,054)	(152,690)	(1,131,722)

In thousand Armenian drams	As of 31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2016
Other liabilities	52,083	10,763	-	62,846
Securities available for sale	229,565	-	(132,962)	96,603
Other assets	36,613	(36,613)	-	-
Total deferred tax assets	318,261	(25,850)	(132,962)	159,449
Contingent liabilities	(22,642)	126	-	(22,516)
Amounts due from other financial institutions	(7,030)	(2,933)	-	(9,963)
Loans and advances to customers	(922,286)	152,149	-	(770,137)
PPE	(97,344)	1,754	(219,221)	(314,811)
Total deferred tax liability	(1,049,302)	151,096	(219,221)	(1,117,427)
Net deferred tax liability	(731,041)	125,246	(352,183)	(957,978)

14 Earnings per share

In thousand Armenian drams	2017	2016
Profit/(loss) for the year	67,602	(443,218)
Dividends on preferred shares	(160,051)	(160,053)
Loss less dividends on preferred shares	(92,449)	(603,271)
Weighted average number of ordinary shares (per share)	203,366,365	173,320,463
Loss per share – basic	(0.0004546)	(0.00348)

15 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Cash on hand	7,690,879	7,186,662
Correspondent accounts with CBA	20,879,961	23,274,349
Nostro accounts with other banks	3,273,114	3,086,625
Total cash and cash equivalents	31,843,954	33,547,636

As of 31 December 2017 correspondent account with Central Bank of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 18% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 14,638,272 thousand (2016: AMD 15,656,074 thousand, 2% and 18% respectively). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. The mandatory reserve deposits of the Bank are non-interest bearing.

As at 31 December 2017 the accounts in amount of AMD 3,202,814 thousand (98%) (2016: AMD 2,439,644 thousand (79%)) were due from two commercial banks.

Non-cash transactions performed by the Bank during 2017 are represented by:

- repayment of AMD 1,892,940 thousand loan by transfer of property rights on pledge (2016: AMD 3,595,345 thousand).

16 Amounts due from financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Deposited funds with the CBA	210,000	510,000
Reverse repurchased agreements	-	2,002,157
Deposits in financial institutions	736,930	736,357
Loans to financial institutions	48,620	20,033
Total amounts due from financial institutions	995,550	3,268,547

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2016 are presented as follows:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA state bonds	-	-	2,123,227	2,002,157
Total assets pledged and loans under reverse repurchase agreements	-	-	2,123,227	2,002,157

17 Derivative financial instruments

In thousand Armenian drams	As of 31 December 2017			As of 31 December 2016		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – foreign currency	2,770,514	3,086	9,993	1,693,790	99,004	-
Total derivative financial instruments	2,770,514	3,086	9,993	1,693,790	99,004	-

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

18 Loans to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans	118,352,092	104,462,281
Overdrafts	22,532,684	20,108,572
	140,884,776	124,570,853
Less allowances for impairment of loans and advances	(5,756,884)	(5,943,790)
Total loans and advances to customers	135,127,892	118,627,063

As of 31 December 2017 the average effective interest rates on loans and advances to corporate customers were 13.49% for loans in AMD, 12.32% for loans in USD, 12.64% for loans in EUR, 12.30% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 17.82% for loans in AMD, 13.25% for loans in USD, 11.14% for loans in EUR, there are no loans in RUB (2016: on loans and advances to corporate customers were 13.65% for loans in AMD, 13.28% for loans in USD, 15.41% for loans in RUB, 12.79% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 21.66% for loans in AMD, 14.39% for loans in USD, 12.19% for loans in EUR, 19.49% for loans in RUB).

As of 31 December 2017, the Bank had a concentration of loans represented by AMD 34,868,710 thousand due from the 13 largest third party entities and parties related with them (25% of gross loan portfolio) (2016: AMD 27,772,226 thousand due from the 15 largest third party entities and parties related with them (22% of gross loan portfolio). An allowance of AMD 560,441 thousand (2016: AMD 1,308,341 thousand) was made against these loans.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Industry	8,591,135	9,859,654
Agriculture	547,754	702,761
Construction	9,426,511	5,487,155
Transportation	5,851,808	3,916,190
Trade	24,403,124	24,952,250
Services	8,073,613	8,879,170
Consumer	55,631,593	47,898,778
Mortgage	11,871,486	12,600,173
Other	16,487,752	10,274,722
	140,884,776	124,570,853
Less allowances for impairment of loans and advances	(5,756,884)	(5,943,790)
Total loans and advances	135,127,892	118,627,063

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

In thousand Armenian drams	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2017
At 1 January 2017	466,732	24,377	324,341	504,759	1,726,813	549,480	1,227,389	531,033	588,866	5,943,790
Charge/(reversal) for the year	(254,322)	(25,845)	156,575	(157,259)	1,180,917	68,234	5,486,389	(355,085)	(159,035)	5,940,569
Amounts written off	(971,931)	-	(233,847)	(141,650)	(1,633,458)	(124,905)	(5,332,228)	(314,234)	(17,160)	(8,769,413)
Recoveries	1,077,422	6,946	34,674	21,296	151,971	204,742	738,650	257,001	149,236	2,641,938
At 31 December 2017	317,901	5,478	281,743	227,146	1,426,243	697,551	2,120,200	118,715	561,907	5,756,884
Individual impairment	239,313	-	195,926	119,786	1,110,306	651,500	185,451	-	406,382	2,908,664
Collective impairment	78,588	5,478	85,817	107,360	315,937	46,051	1,934,749	118,715	155,525	2,848,220
	317,901	5,478	281,743	227,146	1,426,243	697,551	2,120,200	118,715	561,907	5,756,884
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	732,359		844,776	201,264	3,340,650	3,468,515	1,888,572	-	935,271	11,411,407

In thousand Armenian drams	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2016
At 1 January 2016	266,353	21,000	85,468	504,175	1,248,540	1,068,221	946,317	352,011	81,110	4,573,195
Charge/(reversal) for the year	286,698	15,763	213,934	207,889	564,577	(292,011)	2,657,130	320,845	454,287	4,429,112
Amounts written off	(376,348)	(17,791)	(4,609)	(244,320)	(671,174)	(248,097)	(3,097,785)	(454,972)	(893)	(5,115,989)
Recoveries	290,029	5,405	29,548	37,015	584,870	21,367	721,727	313,149	54,362	2,057,472
At 31 December 2016	466,732	24,377	324,341	504,759	1,726,813	549,480	1,227,389	531,033	588,866	5,943,790

In thousand Armenian drams	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
										As of 31 December 2016
Individual impairment	377,928	17,643	275,797	496,938	1,529,388	502,611	215,537	301,106	502,630	4,219,578
Collective impairment	88,804	6,734	48,544	7,821	197,425	46,869	1,011,852	229,927	86,236	1,724,21
	466,732	24,377	324,341	504,759	1,726,813	549,480	1,227,389	531,033	588,866	5,943,790
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	979,218	29,404	632,716	3,134,141	5,217,432	4,192,285	408,659	921,433	1,009,624	16,524,912

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
State owned enterprises	824,858	323,214
Privately held companies	56,711,773	51,531,905
Individuals	71,422,427	61,433,218
Sole proprietors	11,925,718	11,282,516
	140,884,776	124,570,853
Less allowance for loans and advances impairment	(5,756,884)	(5,943,790)
Total loans and advances to customers	135,127,892	118,627,063

Loans to individuals are presented below:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Mortgage loans	11,871,486	12,600,173
Consumer	55,289,992	47,350,203
Car loans	340,104	537,475
Other	3,920,845	945,367
Total loans and advances to individuals (gross)	71,422,427	61,433,218

As at 31 December 2017 and 2016 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 32.

Other analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

Maturity analysis of loans and advances to customers are disclosed in Note 34.

19 Available-for-sale investments

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Unquoted investments		
Shares of Armenian companies	21,460	12,690
RA state bonds	12,168,958	13,902,603
Corporate bonds	1,401,613	484,661
Total available-for-sale investments	13,592,031	14,399,954

All debt securities have fixed coupons.

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

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

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	%	Maturity	%	Maturity
RA state bonds	5.72-14.94%	2018-2028	5.72-14.94%	2018-2028

Available-for-sale debt securities at fair value of AMD 7,877,164 thousand were pledged to third parties in sale and repurchase agreements for periods not exceeding 2 months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

All unquoted available-for-sale shares are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
Cost						
At 1 January 2016	3,366,354	405,062	1,055,870	179,527	2,531,869	7,538,682
Additions	1,150,991	36,811	133,312	2,526	707,843	2,031,483
Disposals	(94,314)	-	(30,759)	-	(30,092)	(155,165)
Revaluation	1,006,672	-	-	-	-	1,006,672
Depreciation adjustment as a result of revaluation	(120,938)	-	-	-	-	(120,938)
Reclassification	299,994	(299,994)	-	-	-	-
At 31 December 2016	5,608,759	141,879	1,158,423	182,053	3,209,620	10,300,734

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
Additions	97,905	106,637	93,584	66,716	603,424	968,266
Disposals	(70,002)	(1,276)	(43,381)	(63,268)	(135,700)	(313,627)
Revaluation	255,757	-	-	-	-	255,757
Depreciation adjustment as a result of revaluation combination	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	5,821,754	247,240	1,208,626	185,501	3,677,344	11,140,465
Accumulated depreciation						
At 1 January 2016	9,549	92,319	696,205	80,743	1,494,524	2,373,340
Charge for the year	68,867	6,222	129,216	26,060	219,648	450,013
Disposals	(1,813)	-	(30,236)	-	(21,345)	(53,394)
Depreciation adjustment as a result of revaluation combination	(120,938)	-	-	-	-	(120,938)
Reclassification	56,177	(56,177)	-	-	-	-
At 31 December 2016	11,842	42,364	795,185	106,803	1,692,827	2,649,021
Charge for the year	68,382	4,320	155,794	13,119	269,735	511,350
Disposals	(334)	(1,275)	(42,341)	(52,450)	(46,251)	(142,651)
Depreciation adjustment as a result of revaluation combination	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	9,225	45,409	908,638	67,472	1,916,311	2,947,055
Carrying amount						
At 31 December 2016	5,596,917	99,515	363,238	75,250	1,516,793	7,651,713
At 31 December 2017	5,812,529	201,831	299,988	118,029	1,761,033	8,193,410

Revaluation of assets

The land and buildings owned by the Bank were evaluated by an independent appraiser in December 2017 using the comparative sales methods resulting in a net decrease in amount of AMD 255,757 thousand (2016: AMD 1,006,672 thousand). Management has based their estimate of the fair value of the land and buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 5,555,765 thousand as at 31 December 2017 (2016: AMD 4,512,820 thousand).

Fully depreciated items

As at 31 December 2017 fixed assets included fully depreciated and amortized assets in cost of AMD 1,819,313 thousand (2016: AMD 1,203,695 thousand).

Fixed assets in the phase of installation

As at 31 December 2017 fixed assets included assets in the phase of installation amounting AMD 1,035,877 thousand, containing buildings in amount of AMD 50,600 thousand (2016: AMD 737,736 thousand, containing buildings in amount of AMD 18,200 thousand)

Restrictions on title of fixed assets

As at 31 December 2017, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2016: either).

Contractual commitments

As at 31 December 2017, the Bank had no contractual commitment in respect of investments in fixed assets (2016: nil).

21 Intangible assets

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as of December 31 are shown below:

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
Cost				
At 1 January 2016	930,838	667,307	100,433	1,698,578
Additions	6,104	143,720	588	150,412
Disposals	-	(115)	-	(115)
At 31 December 2016	936,942	810,912	101,021	1,848,875
Additions	7,825	121,110	-	128,935
At 31 December 2017	944,767	932,022	101,021	1,977,810
Accumulated depreciation				
At 1 January 2016	171,596	153,462	59,472	384,530
Amortisation charge	56,491	25,470	2,398	84,359
Disposals	-	(115)	-	(115)
At 31 December 2016	228,087	178,817	61,870	468,774
Amortisation charge	55,702	30,663	2,397	88,762
At 31 December 2017	283,789	209,480	64,267	557,536
Carrying amount				
At 31 December 2016	708,855	632,095	39,151	1,380,101
At 31 December 2017	660,978	722,542	36,754	1,420,274

Contractual commitments

As at 31 December 2017, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2017, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2017, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 489,449 thousand (2016: AMD 534,750 thousand).

22 Other assets

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Prepayments and other debtors	629,014	488,267
Accounts receivable	208,658	153,094
Other assets	638,733	564,424
	1,476,405	1,205,785
Less allowance for impairment	(12,707)	(10,522)
	1,463,698	1,195,263
Repossessed assets	1,876,321	4,993,452
Other prepaid taxes	3,399	-
Materials	148,063	96,273
Precious metals	63,194	56,073
Total other assets	3,554,675	6,341,061

Repossessed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

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

In thousand Armenian drams	Total
At 1 January 2016	16,081
Charge for the year	7,856
Reversal	(13,415)
At 31 December 2016	10,522
Charge for the year	33,924
Reversal	(31,739)
At 31 December 2017	12,707

23 Amounts due to financial institutions

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Correspondent accounts of other banks	1,751,864	4,217
Current accounts of other financial institutions	93,025	84,011
Loans from financial institutions	6,606,372	4,006,148
Loans under repurchase agreements	7,773,155	-
Deposits from financial institutions	1,026,110	948,312
Total amounts due to financial institutions	17,250,526	5,042,688

As of 31 December 2017 the average effective interest rates on amounts due to financial institutions was 8.00% for borrowings in AMD (2016: 8.98%) and 3.22% for borrowings in USD (2016: 6.2%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

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

24 Amounts due to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Corporate customers		
Current/Settlement accounts	7,011,387	6,338,541
Time deposits	18,171,418	21,520,427
	25,182,805	27,858,968
Retail customers		
Current/Demand accounts	10,943,532	6,870,910
Time deposits	92,301,586	93,282,691
	103,245,118	100,153,601
Total amounts due to customers	128,427,923	128,012,569

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2017 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 13,978,166 thousand (2016: AMD 15,228,974 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2017 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 23,009,790 thousand (2016: AMD 28,217,786 thousand) or 18% of total retail and corporate customer accounts (2016: 22%).

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

As of 31 December 2017 the average effective interest rates on amounts due to corporate customers were 13.81% for liabilities in AMD, 5.61% for liabilities in USD, 1.65% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 9.55% for liabilities in AMD, 4.65% for liabilities in USD, 3.45% for liabilities in EUR, 7.8% for liabilities in RUB (2016: for corporate customers 13.2% for liabilities in AMD, 5.93% for liabilities in USD, 3.73% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 13.27% for liabilities in AMD, 6.24% for liabilities in USD, 6.6% for liabilities in EUR).

25 Borrowings

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Subordinated debt provided by non-financial organizations	3,389,708	7,714,584
Loans from RA Government	5,199,665	3,125,813
Other borrowing	6,155,191	2,419,990
Total subordinated debt	14,744,564	13,260,387

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of “Rural Areas Development Programme” and “Economy stabilization lending programme”. Loans carry fixed interest rates.

The Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 31).

As of 31 December 2017 the average effective interest rate on amounts due to Government of the RA was 6.19% for loans in AMD, 4.06% for loans in USD (2016: the average effective interest rate was 7.39% for loans in AMD, 4.06% for loans in USD).

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

As of 31 December 2017 average weighted interest rate of borrowings was 11.59% (2016: 12.87%).

26 Debt securities issued

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Bonds issued	5,139,360	2,652,531
Total debt securities issued	5,139,360	2,652,531

During 2016 the Bank has issued 18,482 nominal coupon bonds with nominal value of AMD 10,000, 13.5% of interest rate and maturing up to 2018.

During 2016 the Bank has issued 50,000 nominal coupon bonds with nominal value of USD 100, 8% of interest rate and maturing up to 2018.

During 2017 the Bank has issued 25,000 nominal coupon bonds with nominal value of AMD 10,000, 13.5% of interest rate and maturing up to 2020.

During 2017 the Bank has issued 50,000 nominal coupon bonds with nominal value of USD 100, 8% of interest rate and maturing up to 2020.

The bonds of the Bank are listed at “NASDAQ OMX Armenia” stock exchange.

During the year the Bank has not repurchased any issued bond.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

27 Other liabilities

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Accounts payables	115,730	155,691
Due to personnel	284,645	214,485
Total other financial liabilities	400,375	370,176
Tax payable, other than income tax	204,659	197,717
Revenues of future periods	50,996	59,000
Total other non-financial liabilities	255,655	256,717
Total other liabilities	656,030	626,893

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	As of 31 December 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
Available for sale securities (Note 19, 23)	7,877,164	-	7,773,155	-
				-
	7,877,164	-	7,773,155	-

The pledged securities are those financial assets pledged under repurchase agreements with other banks with the right to sell or re-pledge by the counterparty.

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

29 Equity

As at 31 December 2017 the Bank's registered and paid-in share capital was AMD 20,489,653 thousand. In accordance with the Bank's statute, the share capital consists of 172,886,525 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

The respective shareholdings as at 31 December 2017 and 2016 may be specified as follow:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Uniholding GG Ltd	17,981,523	88	-	-
Sfikaro Investments Ltd	1,350,900	6	1,231,903	6
Arolova Enterprises Ltd	776,701	4	708,284	4
Ripatonso Holdings Ltd	-	-	16,805,935	88
Other	380,529	2	347,256	2
	20,489,653	100	19,093,378	100

As at 31 December 2017 the Bank did not possess any of its own shares.

In 2017 the Bank increased its share capital by AMD 3,211,432 thousand, from which the share premium was AMD 1,815,157 thousand (2016: AMD 11,328,490 thousand, from which the share premium was AMD 6,403,059 thousand). The share capital of the Bank was contributed through dividends declared and they are entitled to dividends and any capital distribution in Armenian Drams.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2017 the dividends for preference shareholders recognized in the financial statements amounted to AMD 160,051 thousand (2016: AMD 160,053 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory book.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Undrawn loan commitments	7,307,417	3,808,689
Guarantees	482,605	2,184,384
Total commitments and contingent liabilities	7,790,022	5,993,073

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Not later than 1 year	459,302	331,816
Later than 1 year and not later than 5 years	806,463	625,668
Later than 5 years	47,065	46,719
Total operating lease commitments	1,312,830	1,004,203

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 20 and 21.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partially coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

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

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	3,650,987	197,982	239,451	208,518
Loans issued during the year	26,891	279,456	3,551,055	148,155
Loan repayments during the year	(222,985)	(95,154)	(139,519)	(158,691)
Loans outstanding at 31 December gross	3,454,893	382,284	3,650,987	197,982
Less: allowance for loan impairment	(34,549)	(3,823)	(36,510)	(1,980)
Loans outstanding at December 31	3,420,344	378,461	3,614,477	196,002

In thousand Armenian drams	2017		2016	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Amounts due from other financial institutions				
At January 1	356,283	-	566,731	-
Increase	43,901,871	-	53,838,524	-
Decrease	(43,980,977)	-	(54,048,972)	-
At December 31	277,177	-	356,283	-
Amounts due to financial institutions				
At January 1	440,151	-	874,173	-
Increase	17,108,731	-	6,670,222	-
Decrease	(15,672,594)	-	(7,104,244)	-
At December 31	1,876,288	-	440,151	-
Amounts due to customers				
At January 1	449,792	241,194	671,531	192,156
Deposits received during the year	7,762,798	925,196	35,735,685	1,609,908
Deposits repaid during the year	(7,975,848)	(1,026,744)	(35,957,424)	(1,560,870)
At December 31	236,742	139,616	449,792	241,194
Borrowings				
At January 1	10,134,574	-	7,511,491	-
Received during the year	31,577,312	-	43,330,941	-
Repaid during the year	(32,166,987)	-	(40,707,858)	-
Borrowings at December 31	9,544,899	-	10,134,574	-
Debt securities issued	-	56,642	-	-
Statement of profit or loss and other comprehensive income				
Interest and similar income	392,646	37,482	210,410	24,052
Interest and similar expenses	(1,229,827)	(10,004)	(1,273,155)	(50,748)
Charge/(reversal) of credit losses	(1,961)	1,843	34,115	(105)
Operating lease expenses	-	-	(307,473)	-
Insurance payments	(33,639)	-	(35,121)	-

The loans issued to parties related with the Bank are repayable in 1-20 years and have interest rate 8%-23%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and bonuses	750,989	590,026
Total key management compensation	750,989	590,026

32 Fair value measurement

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	31,843,954	-	31,843,954	31,843,954
Amounts due from financial institutions	-	995,550	-	995,550	995,550
Loans and advances to customers	-	135,127,892	-	135,127,892	135,127,892
Financial liabilities					
Amounts due to financial institutions	-	17,250,526	-	17,250,526	17,250,526
Amounts due to customers	-	128,427,923	-	128,427,923	128,427,923
Borrowings	-	14,744,564	-	14,744,564	14,744,564
Issued debt securities	-	5,183,230	-	5,183,230	5,139,360
Other financial liabilities	-	400,375	-	400,375	400,375

In thousand Armenian drams	As of 31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	33,547,636	-	33,547,636	33,547,636
Amounts due from financial institutions	-	3,268,547	-	3,268,547	3,268,547
Loans and advances to customers	-	118,627,063	-	118,627,063	118,627,063
Financial liabilities					
Amounts due to financial institutions	-	5,042,688	-	5,042,688	5,042,688
Amounts due to customers	-	128,012,569	-	128,012,569	128,012,569
Borrowings	-	13,260,387	-	13,260,387	13,260,387
Issued debt securities	-	2,695,156	-	2,695,156	2,652,531
Other financial liabilities	-	370,176	-	370,176	370,176

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5% to 24% per annum (2016: 9% to 24% per annum).

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

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

The estimated fair value of the issued debt securities is determined based on the estimated future cash flows discounted at the relevant interest rates at the end of the year, which mainly coincides with the current interest rates.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,086	-	3,086
Investments available-for-sale	-	13,570,571	-	13,570,571
Securities pledged under repurchase agreements	-	7,877,164	-	7,877,164
Total	-	21,450,821	-	21,450,821
Financial liabilities				
Derivative financial liabilities	-	9,993	-	9,993
Total	-	9,993	-	9,993
Net fair value	-	21,440,828	-	21,440,828

In thousand Armenian drams	As of 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investments available-for-sale	-	14,387,264	-	14,387,264
Derivative financial assets	-	99,004	-	99,004
Total	-	14,486,268	-	14,486,268

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

Unlisted equity investments.
The fair value of Bank's investments in unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to Note 19 for further information about this equity investment.

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	As of 31 December 2017			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	5,821,754	5,821,754
Total non-financial assets	-	-	5,821,754	5,821,754
NET FAIR VALUE	-	-	5,821,754	5,821,754

In thousand Armenian drams				As of 31 December 2016
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	5,608,759	5,608,759
Total non-financial assets	-	-	5,608,759	5,608,759
NET FAIR VALUE	-	-	5,608,759	5,608,759

Fair value measurements in Level 3

The Bank's financial assets were classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams		2017
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2017	5,608,759	5,608,759
Net loss from impairment recognized in comprehensive income	(7)	(7)
Depreciation adjustment as a result of revaluation of PPE	(70,665)	(70,665)
Gain recognised in other comprehensive income	255,764	255,764
Additions	97,905	97,905
Disposal	(70,002)	(70,002)
Balance as at 31 December, 2017	5,821,754	5,821,754
NET FAIR VALUE	5,821,754	5,821,754

In thousand Armenian drams		2016
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2016	3,366,354	3,366,354
Net loss from impairment recognized in comprehensive income	(89,434)	(89,434)
Depreciation adjustment as a result of revaluation of PPE	(120,938)	(120,938)
Gains recognised in other comprehensive income	1,096,106	1,096,106
Additions	1,450,985	1,450,985
Disposal	(94,314)	(94,314)
Balance as at 31 December, 2016	5,608,759	5,608,759
NET FAIR VALUE	5,608,759	5,608,759

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with Management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams				As at 31 December 2017		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial liabilities						
Loans under repurchase agreements (Note 23)	(7,773,155)	-	(7,773,155)	7,877,164	-	104,009

In thousand Armenian drams				As at 31 December 2016		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial assets in the statement of financial position	Financial instruments in the statement of financial position	Cash collateral received	Net
Financial assets						
Reverse repurchase agreements (Note 16)	2,002,157	-	2,002,157	2,002,157	-	-

34 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	As at 31 December 2017							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets								
Cash and cash equivalents	31,843,954	-	-	31,843,954	-	-	-	31,843,954
Amounts due from financial institutions	995,550	-	-	995,550	-	-	-	995,550
Derivative financial assets	3,086	-	-	3,086	-	-	-	3,086
Loans and advances to customers	22,535,590	16,833,869	30,615,659	69,985,118	39,824,897	25,317,877	65,142,774	135,127,892
Available for sale investments	21,460	-	372,867	394,327	4,878,803	8,318,901	13,197,704	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164	-	-	-	7,877,164
	63,276,804	16,833,869	30,988,526	111,099,199	44,703,700	33,636,778	78,340,478	189,439,677
Liabilities								
Amounts due financial institutions	13,840,218	380,951	1,532,215	15,753,384	40,182	1,456,960	1,497,142	17,250,526
Amounts due customers	32,976,417	28,351,422	58,307,935	119,635,774	7,721,832	1,070,317	8,792,149	128,427,923
Derivative financial liabilities	9,993	-	-	9,993	-	-	-	9,993
Borrowings	10,082	1,233	6,155,191	6,166,506	77,505	8,500,553	8,578,058	14,744,564
Debt securities issued	-	-	2,643,711	2,643,711	2,495,649	-	2,495,649	5,139,360
Other liabilities	400,375	-	-	400,375	-	-	-	400,375
	47,237,085	28,733,606	68,639,052	144,609,743	10,335,168	11,027,830	21,362,998	165,972,741
Net position	16,039,719	(11,899,737)	(37,650,526)	(33,510,544)	34,368,532	22,608,948	56,977,480	23,466,936
Accumulated gap	16,039,719	4,139,982	(33,510,544)		857,988	23,466,936		

In thousand Armenian drams	As at 31 December 2016							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets								
Cash and cash equivalents	33,547,636	-	-	33,547,636	-	-	-	33,547,636
Amounts due from financial institutions	1,145,320	40,950	-	1,186,270	1,032,067	1,050,210	2,082,277	3,268,547
Derivative financial assets	99,004	-	-	99,004	-	-	-	99,004
Loans and advances to customers	18,813,969	17,949,658	27,732,206	64,495,833	45,502,662	8,628,568	54,131,230	118,627,063
Available for sale investments	3,213	363,099	1,367	367,679	10,060,199	3,972,076	14,032,275	14,399,954
	53,609,142	18,353,707	27,733,573	99,696,422	56,594,928	13,650,854	70,245,782	169,942,204
Liabilities								
Amounts due financial institutions	193,962	979,024	1,252,654	2,425,640	1,491,262	1,125,786	2,617,048	5,042,688
Amounts due customers	13,244,946	49,962,689	56,480,483	119,688,118	3,833,132	4,491,319	8,324,451	128,012,569
Borrowings	256,949	-	10,145,994	10,402,943	2,857,444	-	2,857,444	13,260,387
Debt securities issued	-	8,820	-	8,820	2,643,711	-	2,643,711	2,652,531
Other liabilities	305,665	64,511	-	370,176	-	-	-	370,176
	14,001,522	51,015,044	67,879,131	132,895,697	10,825,549	5,617,105	16,442,654	149,338,351
Net position	39,607,620	(32,661,337)	(40,145,558)	(33,199,275)	45,769,379	8,033,749	53,803,128	20,603,853
Accumulated gap	39,607,620	6,946,283	(33,199,275)		12,570,104	20,603,853		

35 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank 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 Bank's strategic planning process.

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

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

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

35.1 Credit risk

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

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

35.1.1 Risk concentrations

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	OECD countries	Non-OECD countries	Total
Cash and cash equivalents	31,843,954	-	-	31,843,954
Amounts due from other financial institutions	331,234	664,316	-	995,550
Derivative financial assets	-	-	3,086	3,086
Loans and advances to customers	124,374,376	5,511,491	5,242,025	135,127,892
Investments available for sale	13,592,031	-	-	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164
As at 31 December 2017	178,018,759	6,175,807	5,245,111	189,439,677
As at 31 December 2016	158,660,942	2,894,414	8,386,848	169,942,204

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Industry	Agricul-ture	Const-ruction	Trans-port	Trading
Cash and cash equivalents	31,843,954	-	-	-	-	-
Amounts due from other financial institutions	995,550	-	-	-	-	-
Derivative financial assets	3,086	-	-	-	-	-
Loans and advances to customers	-	8,240,081	525,371	9,041,322	5,612,689	23,405,955
Investments available for sale	13,592,031	-	-	-	-	-
Securities pledged under repurchase agreements	7,877,164	-	-	-	-	-
As at 31 December 2017	54,311,785	8,240,081	525,371	9,041,322	5,612,689	23,405,955
As at 31 December 2016	51,315,141	9,392,922	678,384	5,162,814	3,411,431	23,225,437

In thousand Armenian drams	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	-	-	-	-	31,843,954
Amounts due from other financial institutions	-	-	-	-	995,550
Derivative financial assets	-	-	-	-	3,086
Loans and advances to customers	7,743,706	53,358,355	11,386,389	15,814,024	135,127,892
Investments available for sale	-	-	-	-	13,592,031
Securities pledged under repurchase agreements	-	-	-	-	7,877,164
As at 31 December 2017	7,743,706	53,358,355	11,386,389	15,814,024	189,439,677
As at 31 December 2016	8,329,690	46,671,389	12,069,140	9,685,856	169,942,204

35.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Bank.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans collateralized by real estate	70,670,551	72,885,020
Loans collateralized by movable property	6,386,071	1,482,968
Loans collateralized by goods in circulation	593,958	277,432
Loans collateralized by guarantees	5,616,929	6,313,192
Loans collateralized by cash	8,224,073	3,514,323
Loans collateralized by household appliances	19,080,000	14,083,535
Unsecured loans	30,313,194	26,014,383
Total loans and advances to customers (gross)	140,884,776	124,570,853

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

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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 Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans and advances to customers		
Industry	1%	1%
Agriculture	1%	1%
Construction	1%	1%
Transportation	1.9%	1%
Trade	1.5%	1%
Service	1%	1%
Consumer	3.6%	2.13%
Mortgage	1%	1%
Other	1%	-

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

Past due but not impaired loans

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

In thousand Armenian drams	As of 31 December 2017				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Industry	1,294,052	398,141	44,104	1,667,960	3,404,257
Agriculture	-	-	-	366,232	366,232
Construction	1,592	-	-	798,643	800,235
Transportation and communication	4,440	114,137	-	2,663,204	2,781,781
Trade	310,566	52,353	18,524	4,679,332	5,060,775
Service	64,531	5,286	2,496	1,460,619	1,532,932
Consumer	796,398	680,328	275,558	2,396,687	4,148,971
Mortgage	242,708	17,358	24,664	636,836	921,566
Other	-	-	494	2,728,697	2,729,191
Total	2,714,287	1,267,603	365,840	17,398,210	21,745,940

In thousand Armenian drams	As of 31 December 2016				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Industry	529,141	17,314	149,489	3,548,039	4,243,983
Agriculture	6,491	-	118,658	217,435	342,584
Construction	-	131,428	-	648,750	780,178
Transportation and communication	23,860	-	-	235,437	259,297
Trade	922,821	880,014	390,715	4,706,992	6,900,542
Service	44,982	12,798	40,711	1,165,841	1,264,332
Consumer	849,411	431,530	242,150	2,080,445	3,603,536
Mortgage	358,755	97,229	16,322	779,840	1,252,146
Other	5,294	-	-	2,723,537	2,728,831
Total	2,740,755	1,570,313	958,045	16,106,316	21,375,429

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

35.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2017. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2017 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams			As at 31 December 2017				
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
AMD	+1	-	-	-	61,232	85,518	147,750
USD	+1	(12,399)	-	-	-	-	(12,399)
AMD	-1	-	-	-	(63,928)	(93,360)	(157,288)
USD	-1	12,399	-	-	-	-	12,399

In thousand Armenian drams			As at 31 December 2016				
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
AMD	+1	-	-	-	179,801	162,253	342,054
USD	+1	(24,197)	-	-	-	-	(24,197)
AMD	-1	-	-	-	(185,243)	(175,682)	(360,925)
USD	-1	24,197	-	-	-	-	24,197

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

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

In thousand Armenian drams	As at 31 December 2017		As at 31 December 2016	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	(179,387)	+5	(168,715)
EUR	+5	53,240	+5	(4,394)
USD	(5)	179,387	(5)	168,715
EUR	(5)	(53,240)	(5)	4,394

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

In thousand Armenian drams				2017
	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	15,782,849	15,446,920	614,185	31,843,954
Amounts due from other financial institutions	210,609	784,941	-	995,550
Loans and advances to customers	71,417,556	60,261,664	3,448,672	135,127,892
Investments available for sale	5,505,736	8,086,295	-	13,592,031
Securities pledged under repurchase agreements	7,877,164	-	-	7,877,164
	100,793,914	84,579,820	4,062,857	189,436,591
Liabilities				
Amounts due to financial institutions	10,175,711	7,074,795	20	17,250,526
Amounts due to customers	57,769,392	67,503,761	3,154,770	128,427,923
Borrowings	5,158,260	9,586,304	-	14,744,564
Debt securities issued	250,183	4,889,177	-	5,139,360
Other financial liabilities	400,375	-	-	400,375
	73,753,921	89,054,037	3,154,790	165,962,748
Total effect of derivative financial instruments	(2,770,514)	1,979,365	784,242	(6,907)
Net position as at 31 December 2017	24,269,479	(2,494,852)	1,692,309	23,466,936
Commitments and contingent liabilities as of 31 December 2017	1,821,681	5,968,341	-	7,790,022
Total financial assets	86,439,063	80,411,349	2,992,788	169,843,200
Total financial liabilities	64,054,748	83,844,516	1,439,087	149,338,351
Total effect of derivative financial instruments	-	1,693,790	(1,594,786)	99,004
Net position as of 31 December 2016	22,384,315	(1,739,377)	(41,085)	20,603,853
Commitments and contingent liabilities as of 31 December 2016	4,411,339	1,581,734	-	5,993,073

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 18% on certain obligations of the Bank denominated in foreign currency. Refer to Note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

As of 31 December, these ratios were as follows:

	Not audited	
	As at 31 December 2017, %	As at 31 December 2016, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	25.27	29.09
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	272.67	372.09

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. Refer to Note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Analysis of financial liabilities by remaining contractual maturities is as follows:

In thousand Armenian drams	As of 31 December 2017					
	Demand and less than 1 month	From 1 to 3 months	From 1 to 3 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to financial institutions	13,843,955	385,089	1,618,942	48,741	2,145,763	18,042,490
Amounts due to customers	33,022,155	28,665,039	60,561,755	9,534,664	1,699,311	133,482,924
Borrowings	10,082	1,243	6,646,761	86,149	12,715,788	19,460,023
Debt securities issued	-	-	2,855,207	3,094,605	-	5,949,812
Other financial liabilities	400,375	-	-	-	-	400,375
Total discounted financial liabilities	47,276,567	29,051,371	71,682,665	12,764,159	16,560,862	177,335,624

In thousand Armenian drams	As of 31 December 2017					
	Demand and less than 1 month	From 1 to 3 months	From 1 to 3 months	From 1 to 5 years	More than 5 years	Total
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	2,763,898	-	-	-	-	2,763,898
Outflow	(2,770,805)	-	-	-	-	(2,770,805)
Commitments and contingent liabilities	338,794	476,502	1,765,339	5,209,387	-	7,790,022

In thousand Armenian drams	As of 31 December 2016					
	Demand and less than 1 month	From 1 to 3 months	From 1 to 3 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to financial institutions	195,491	995,118	1,347,032	2,087,767	1,688,679	6,314,087
Amounts due to customers	13,353,809	50,783,993	60,735,862	5,749,698	4,940,451	135,563,813
Borrowings	387,147	347,194	11,339,475	4,229,017	-	16,302,833
Debt securities issued	18,292	57,598	167,673	2,883,451	-	3,127,014
Other financial liabilities	87,639	64,511	-	-	-	152,150
Total discounted financial liabilities	14,042,378	52,248,414	73,590,042	14,949,933	6,629,130	161,459,897
Derivative financial liabilities						
Foreign exchange swap contracts						
Inflow	1,693,790	-	-	-	-	1,693,790
Outflow	(1,594,786)	-	-	-	-	(1,594,786)
Commitments and contingent liabilities	268,019	844,599	1,625,022	3,255,433	-	5,993,073

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 34. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2017 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

36 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	As of 31 December 2017				
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Dividends**	**Total**
As of 1 January 2017	5,042,688	13,260,387	2,652,531	-	20,955,606
Cash-flows	*10,432,480*	*1,366,159*	*2,465,424*	*(160,051)*	*14,104,012*
Repayments	(140,507,859)	(33,378,724)	(1,728,402)	(160,051)	(175,775,03
Proceeds	150,940,339	34,744,883	4,193,826	-	189,879,04
Non-cash	*1,775,358*	*118,018*	*21,405*	*160,051*	*2,074,832*
Foreign exchange	(50,522)	(89,222)	(21,405)	-	(161,149)
Accrued interest	1,825,880	207,240	42,810	-	2,075,930
Accrual of dividends	-	-	-	160,051	160,051
As of 31 December 2017	17,250,526	14,744,564	5,139,360	-	37,134,450

37 Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, police and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and subordinated debt.

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

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

In thousand Armenian drams	Not audited As of 31 December 2017	 As of 31 December 2016
Tier 1 capital	28,463,986	26,770,726
Tier 2 capital	2,820,403	257,739
Total regulatory capital	31,284,389	27,028,465
Risk-weighted assets	183,593,833	155,514,758
Capital adequacy ratio	17.04%	17.38%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

38 Analysis by segment

The Bank's operations are highly integrated and constitute a single operating segment for the purposes of IFRS 8 "Operating Segments".

The majority of income from external customers relates to residents of the Republic of Armenia. No single customer exists from which the Bank earned 10% or more of its revenue.

The majority of non-current assets are located in the Republic of Armenia.

39 Events after the reporting period

The political situation in the Republic of Armenia is currently unstable due to mass demonstrations of inhabitants against the ruling political party taking place since April 13, 2018. These demonstrations are conducted with public disobedience calls and are accompanied by closing streets, bridges and other infrastructures. The Bank's management anticipates, that these processes have no significant influence on the Bank's activity, and hence, there is no need to adjust the Bank's financial statements for the year ended 31 December 2017 due to this political instability.

Interim report on the Comprehensive Financial Result (Form N 6)
31-Mar-18
" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name	Notes	Interim period 01.01.18_31.03.18	Reporting period 01.01.17_31.03.17 (audited)
Interest and similar income	3	5,491,431	4,570,440
Interest and similar expenses	3	(2,546,745)	(3,153,841)
Net interest and other income		**2,944,686**	**1,416,599**
Fee and commission income	4	281,759	1,073,995
Fee and commission expenses	4	(90,159)	(67,950)
Net fee and commission income		**191,600**	**1,006,045**
Income from dividents			
Net trading income	5	144,280	108,326
Other operational income	6	256,786	315,187
Operational income		**3,537,352**	**2,846,157**
Net allocation to the reserve funds of possible loss of assets	7	(1,299,551)	(1,115,780)
Total administrative expenses	8	(888,778)	(848,525)
Other operational expenses	9	(808,421)	(738,192)
Net gain/loss from investments	10		
Gain (loss) before taxation		**540,602**	**143,660**
Profit tax expenses	11	(112,779)	(53,415)
Gain (loss) after taxation		**427,823**	**90,245**
Basic profit per share	12		
Diminished profit per share	12		
Net profit for the period			
Including			
Share to the principle organization			
Uncontrolled share			

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the Aggregated Financial result

31-Mar-18

" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Reporting period 01.01.18_31.03.18	Previous period 01.01.17_31.03.17
Other aggregate financial result		
Rate exchange from the converting of foreign transactions		
Revaluation of financial assets	(40,006)	110,233
Cash flow hedging		
Income from the revaluation on the current assets		
Income tax from other aggregate income	8,001	(22,047)
Other aggregate result after taxation	(32,005)	88,186
Aggregated financial result	395,818	178,431
Including		
Share in the principal organization		
Non controlled share		

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the financial result

31-Mar-18

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

	Name	Notes	At the end of current interim period dated as of 31.03.2018	At the end of preceding financial year 31.12.2017
1				
1.1	Cash and balances with CBA	13	23,178,187	29,306,153
1.2	Precious metals	13.1	64,261	63,194
1.3	Amounts due from banks and other financial institutions	14	10,253,118	4,034,629
1.5	Loans and borrowings to customers	16	130,619,229	130,860,942
1.6	Financial assets available for commercial purposes	17	10,010,776	21,474,879
1.7	Investments kept upon repayment period	18	7,520,196	
1.10	Fixed and intangible assets	20	9,607,057	9,613,684
1.11	Deferred tax assets	11		
1.12	Prepayment on profiyt tax	21.1	113,435	113,435
1.13	Other assets	21	3,608,115	3,281,612
	Total assets		**194,974,374**	**198,748,528**
2	**Liabilities**			
2.1	Amounts due to the banks and other financial	22	9,349,437	17,260,519
2.2	Amounts due to customers	23	135,586,908	133,881,944
2.3	Subboridnated loan	23.1	8,742,943	9,541,755
2.4	Securities issued by Bank	24	7,760,377	5,139,360
2.7	Deferred tax liabilities	11	87,582	50,157
2.8	Reserves	30		
2.9	Other liabilities	27	885,810	701,934
	Total liabilities		**162,413,057**	**166,575,669**
3	**Equity**			
3.1	Share capital	28	20,489,653	20,489,653
3.2	Emission income		9,605,638	9,605,638
3.3	Reserves		1,880,474	1,919,841
3.3.1	General reserve		426,483	426,483
3.3.2	Re-assessment reserve		1,453,991	1,493,358
3.4	Retained gain (loss)		585,552	157,727
3.5	Other items of equity			
	Total equity		**32,561,317**	**32,172,859**
	Total liabilities and equity		**194,974,374**	**198,748,528**

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the changes in Equity
31-Mar-18
" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name of equity items	Share capital			Emission gain/loss	General reserve	Exchange differences from the recalculation of	Recalculation of financial assets	Hedging of cash flow	Profits from the recalculation of noncurrent assets	Retained profit/loss	Interim dividents	Total	Uncontrolled share	Total equity
	Share capital	Repurchased capital	Net amount											
Articles	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Interim period of previous financial year (increasing from the beginning of the year) (I scheme)														
1. Balance at the beginning of preceding financial year as of 01 January 2017 (checked/unchecked)	19,093,378	-	19,093,378	7,790,481	426,483	-	(381,873)	-	1,297,921	7,485,470	-	-	-	35,711,860
1.1. General result of accounting policy changes and adjustment of considerable mistakes														-
2. Recalculated balance														-
3. Operations with the shareholders, via shares, including	1,396,275		1,396,275	1,815,157										3,211,432
3.1. Investments in the share capital and other increase of the share capital	1,396,275		1,396,275	1,815,157										3,211,432
3.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks			-											-
4. Comprehensive income														-
5. Dividents										(3,211,432)				(3,211,432)
6. Increase/ decrease of equity item, including														-
6.1. Increase/ decrease of derivative instruments classified as equity instruments														-
7. Internal movements, including							88,186			(12,621)				75,565
7.1. Distribution to the General reserve														-
7.2. Loss cover accumulated at the expense of general														-
7.3. Cover of emission loss														-
7.4. Decrease of growth from the recalculation of fixed assets and intangible assets														-
7.5. Internal movements of other equity items							88,186			(12,621)				75,565
8.Balance at the end of similar interim period of preceding financial year as of 31.03.2017 (checked/unchecked)	20,489,653	-	20,489,653	9,605,638	426,483	-	(293,687)	-	1,297,921	4,261,417	-	-	-	35,787,425

Interim period of current financial year (increasing from the beginning of the year) (II scheme)														
9. Balance at the beginning of the financial year as of 01 January 2018 (checked/unchecked)	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**426,482**	**-**	**24,275**	**-**	**1,469,083**	**3,572,712**	**-**	**-**	**-**	**35,587,843**
9.1. General result of accounting policy changes and adjustment of considerable mistakes										(3,414,985)				(3,414,985)
10.Recalculated balance	20,489,653	-	20,489,653	9,605,638	426,482	-	24,275	-	1,469,083	157,727	-	-	-	32,172,858
11. Operations with the shareholders, via shares, including														-
11.1. Investments in the share capital and other increase of the share capital														-
11.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks														-
12. Other comprehensive income														
13. Dividents														-
14. Increase/ decrease of equity items, including														-
14.1. Increase/ decrease of derivative instruments classified as equity instruments														-
14.2. Internal movements, including							(32,005)		(7,362)	427,824				388,457
15.1. Distribution to the General reserve														-
15.2. Loss cover accumulated at the expense of general reserve														-
15.3. Cover of emission loss														-
15.4. Decrease of growth from the recalculation of fixed assets and intangible assets									(7,362)					(7,362)
15.5. Internal movements of other equity items							(32,005)			427,824				395,819
10. Balance at the end of interim reporting financial period as of 31.03.2018	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**426,482**	**-**	**(7,730)**	**-**	**1,461,721**	**585,551**	**-**	**-**	**-**	**32,561,315**

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on cash flow

31-Mar-18

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Notes	Previous period 31.03.2017	Reporting period 31.03.2018
1. Cash flows from operating activities		x	x
Net cash flows before changes in operating assets and liabilities		2,203,917	2,176,836
Interest receivable		4,056,256	3,961,619
Interes payable		(2,938,460)	(3,123,436)
Commission receivable		1,050,080	1,314,992
Commission payable		(67,950)	(90,159)
Profit/ loss from financial assets for commercial purposes		501,651	456,520
Profit/ loss from foreign currency exchange		129,162	168,637
Return of write off assets		675,799	684,459
Paid salary and equalled to it other payments		(820,989)	(875,471)
Other income receivable and other expenses payable from operating activities		(381,632)	(320,325)
Cash flows from the changes in operating assets and liabilities		(4,316,847)	(103,565)
(Increase)/decrease in operating assets		(5,617,498)	1,076,464
including (Increase)/decrease in credits/loans		(689,288)	(2,808,658)
(Increase)/decrease of share for commercial purposes		(5,287,228)	4,038,352
(Increase)/decrease of receivable leasing			
Decrease (increase) of other operating assets		359,018	(153,230)
(Increase)/decrease of operating liabiities		1,300,651	(1,180,029)
including (Increase)/decrease of liabiities to customers		1,194,290	(1,565,275)
(Increase)/decrease of other operating liabiities		106,361	385,246
Net cash flows used in operating activities before income tax		(2,112,930)	2,073,271
Income tax paid			
Net cash flows used in operating activities		(2,112,930)	2,073,271
2. Cash flows from investing activities		x	x
(Increase)/decrease of investnents held up to repayment period			
(Increase)/decrease of investnents in the share capital of other persons			
(Increase)/decrease of deposits placed in other banks			
(Increase)/decrease of statute investnentsin the fixed assets and intangible assets		(49,922)	(18,500)
Purchase of fixed assets and intangible assets		(35,835)	(373,538)
Amortization of fixed assets and intangible assets			7,555
Net cash flow from other investment activity		(252,318)	(7,936)
Net cash flows used in investing activities		(338,075)	(392,419)
Cash flow from financing activities		x	x
Dividend paid		(3,211,432)	
(Increase)/decrease in loans received from Central Bank of Republic of Armenia		(253,230)	(569,281)
(Increase)/decrease in loans received from the Banks			(3,872,799)
(Increase)/decrease in other loans		(608,470)	(610,910)
(Increase)/decrease in currency of the Bank			2,621,017
Investment to share capital		3,211,432	
(Increase)/decrease payable leasing			
Net cash flow from other financing activities			
Net cash flow from financing activities		(861,700)	(2,431,973)
Exchange differences on cash and cash equivalents		114,698	784,892
Net increase/ (decrease) in cash and cash equivalents		(3,198,007)	33,771
Cash and cash equivalents at the beginning of the year	13_2	33,764,417	32,369,267
Cash and cash equivalents at the end of the year	13_2	30,566,410	32,403,038

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on cash flow
30-Jun-18
" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Notes	Previous period 30.06.2017	Reporting period 30.06.2018
1. Cash flows from operating activities		x	x
Net cash flows before changes in operating assets and liabilities		5,277,045	4,314,382
Interest receivable		9,692,496	9,126,116
Interes payable		(5,524,326)	(4,715,887)
Commission receivable		349,052	591,219
Commission payable		(145,852)	(185,088)
Profit/ loss from financial assets for commercial purposes		1,057,399	784,708
Profit/ loss from foreign currency exchange		257,298	429,030
Return of write off assets		1,628,304	737,222
Paid salary and equalled to it other payments		(1,637,502)	(1,778,630)
Other income receivable and other expenses payable from operating activities		(399,824)	(674,308)
Cash flows from the changes in operating assets and liabilities		(10,316,741)	(1,649,829)
(Increase)/decrease in operating assets		(19,137,738)	4,800,203
including (Increase)/decrease in credits/loans		(13,356,840)	140,678
(Increase)/decrease of share for commercial purposes		(5,421,148)	5,895,367
(Increase)/decrease of receivable leasing			
Decrease (increase) of other operating assets		(359,750)	(1,235,842)
(Increase)/decrease of operating liabiities		8,820,997	(6,450,032)
including (Increase)/decrease of liabiities to customers		8,418,543	(5,000,475)
(Increase)/decrease of other operating liabilities		402,454	(1,449,557)
Net cash flows used in operating activities before income tax		(5,039,696)	2,664,553
Income tax paid		(68,178)	(34,830)
Net cash flows used in operating activities		(5,107,874)	2,629,723
2. Cash flows from investing activities		x	x
(Increase)/decrease of investnents held up to repayment period			
(Increase)/decrease of investnents in the share capital of other persons			
(Increase)/decrease of deposits placed in other banks			
(Increase)/decrease of statute investnentsin the fixed assets and intangible assets		(67,095)	(65,309)
Purchase of fixed assets and intangible assets		(58,086)	(499,659)
Amortization of fixed assets and intangible assets		139,785	231,320
Net cash flow from other investment activity		(12,372)	(297,078)
Net cash flows used in investing activities		2,232	(630,726)
Cash flow from financing activities		x	x
Dividend paid		(3,211,432)	
(Increase)/decrease in loans received from Central Bank of Republic of Armenia		(275,445)	(539,593)
(Increase)/decrease in loans received from the Banks			(908,320)
(Increase)/decrease in other loans		(609,974)	(608,850)
(Increase)/decrease in currency of the Bank		63,541	180,480
Investment to share capital		3,211,432	
(Increase)/decrease payable leasing			
Net cash flow from other financing activities			
Net cash flow from financing activities		(821,878)	(1,876,283)
Exchange differences on cash and cash equivalents		407,278	(191,525)
Net increase/ (decrease) in cash and cash equivalents		(5,520,242)	(68,811)
Cash and cash equivalents at the beginning of the year	13_2	33,547,636	31,843,954
Cash and cash equivalents at the end of the year	13_2	28,027,394	31,775,143

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the financial result

30-Jun-18

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

	Name	Notes	At the end of current interim period dated as of 30.06.2018	At the end of preceding financial year 31.12.2017
1				
1.1	Cash and balances with CBA	13	24,266,779	28,780,840
1.2	Precious metals	13.1	72,884	63,194
1.3	Amounts due from banks and other financial institutions	14	9,269,776	4,238,080
1.5	Loans and borrowings to customers	16	128,064,008	130,892,375
1.6	Financial assets available for commercial purposes	17	7,740,760	21,469,195
1.7	Investments kept upon repayment period	18	7,639,166	
1.10	Fixed and intangible assets	20	9,730,187	9,613,684
1.11	Deferred tax assets	11		
1.12	Prepayment on profit tax	21.1	147,795	113,435
1.13	Other assets	21	3,665,824	3,297,832
	Total assets		190,597,179	198,468,635
2	Liabilities			
2.1	Amounts due to the banks and other financial	22	7,582,642	17,260,519
2.2	Amounts due to customers	23	142,027,098	133,627,588
2.3	Subboridnated loan	23.1	1,951,102	9,544,899
2.4	Securities issued by Bank	24	5,319,840	5,139,360
2.7	Deferred tax liabilities	11	161,384	96,740
2.8	Reserves	30		
2.9	Other liabilities	27	883,705	656,031
	Total liabilities		157,925,771	166,325,137
3	Equity			
3.1	Share capital	28	20,489,653	20,489,653
3.2	Emission income		9,605,638	9,605,638
3.3	Reserves		1,821,276	1,919,841
3.3.1	General reserve		426,483	426,483
3.3.2	Re-assessment reserve		1,394,793	1,493,358
3.4	Retained gain (loss)		754,841	128,366
3.5	Other items of equity			
	Total equity		32,671,408	32,143,498
	Total liabilities and equity		190,597,179	198,468,635

Chairman of the Executive Board Mesrop Hakobyan

Chief Accountant Gohar Grigoryan

UNIBANK OPEN JOINT STOCK COMPANY YEREVAN

Interim report on the Comprehensive Financial Result (Form N 6)
30-Jun-18
" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name	Notes	Interim period 01.04.18_30.06.18	Reporting period 01.01.18_30.06.18	Previous interim period 01.04.17_30.06.17 (audited)	Reporting period 01.01.17_30.06.17 (audited)
Interest and similar income	3	5,418,553	10,909,984	5,557,555	11,030,921
Interest and similar expenses	3	(2,341,013)	(4,887,758)	(3,120,111)	(6,273,952)
Net interest and other income		3,077,540	6,022,226	2,437,444	4,756,969
Fee and commission income	4	309,461	591,220	200,209	371,278
Fee and commission expenses	4	(94,929)	(185,088)	(77,902)	(145,852)
Net fee and commission income		214,532	406,132	122,307	225,426
Income from dividents					
Net trading income	5	183,782	328,062	179,117	287,443
Other operational income	6	295,940	552,726	650,095	965,282
Operational income		3,771,794	7,309,146	3,388,963	6,235,120
Net allocation to the reserve funds of possible loss of assets	7	(1,676,690)	(2,976,241)	(1,609,295)	(2,725,075)
Total administrative expenses	8	(1,023,104)	(1,911,882)	(831,892)	(1,680,417)
Other operational expenses	9	(831,166)	(1,639,587)	(761,733)	(1,499,925)
Net gain/loss from investments	10				
Gain (loss) before taxation		240,834	781,436	186,043	329,703
Profit tax expenses	11	(41,714)	(154,493)	(129,366)	(182,781)
Gain (loss) after taxation		199,120	626,943	56,677	146,922
Basic profit per share	12				
Diminished profit per share	12				
Net profit for the period					
Including					
Share to the principle organization					
Uncontrolled share					

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the Aggregated Financial result

30-Jun-18

" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Reporting period 01.04.18_30.06.18	Previous period 01.01.17_30.06.17
Other aggregate financial result		
Exchange rate from conversion of foreign transactions		
Revaluation of financial assets	(164,244)	405,344
Cash flow hedging		
Income from the revaluation on the current assets		
Income tax from other aggregate income	32,849	(81,069)
Other aggregate result after taxation	(131,395)	324,275
Aggregated financial result	67,725	380,952
Including		
Share in the principal organization		
Non controlled share		

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the changes in Equity
30-Jun-18
" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name of equity items	Share capital			Emission gain/loss	General reserve	Exchange differences from the recalculation of	Recalculation of financial assets	Hedging of cash flow	Profits from the recalculation of noncurrent assets	Retained profit/loss	Interim dividents	Total	Uncontrolled share	Total equity
	Share capital	Repurchased capital	Net amount											
Articles	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Interim period of previous financial year (increasing from the beginning of the year) (I scheme)														
1. Balance at the beginning of preceding financial year as of 01 January 2017 (checked/unchecked)	19,093,378	-	19,093,378	7,790,481	426,483	-	(381,873)	-	1,297,921	7,485,470	-	-	-	35,711,860
1.1. General result of accounting policy changes and adjustment of considerable mistakes														-
2. Recalculated balance														-
3. Operations with the shareholders, via shares, including	1,396,275		1,396,275	1,815,157										3,211,432
3.1. Investments in the share capital and other increase of the share capital	1,396,275		1,396,275	1,815,157										3,211,432
3.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks														-
4. Comprehensive income														-
5. Dividents										(3,211,432)				(3,211,432)
6. Increase/ decrease of equity item, including														-
6.1. Increase/ decrease of derivative instruments classified as equity instruments														-
7. Internal movements, including							324,275		(41,811)	(721,894)				(439,430)
7.1. Distribution to the General reserve														-
7.2. Loss cover accumulated at the expense of general														-
7.3. Cover of emission loss														-
7.4. Decrease of growth from the recalculation of fixed assets and intangible assets									(41,811)					(41,811)
7.5. Internal movements of other equity items							324,275			(721,894)				(397,619)
8. Balance at the end of similar interim period of preceding financial year as of 30.06.2017 (checked/unchecked)	20,489,653	-	20,489,653	9,605,638	426,483	-	(57,598)	-	1,256,110	3,552,144	-	-	-	35,272,430

Interim period of current financial year (increasing from the beginning of the year) (II scheme)														
*9. **Balance at the beginning** of the financial year as of 01 January 2018 (checked/unchecked)*	20,489,653	-	20,489,653	9,605,638	426,482	-	24,275	-	1,469,083	3,572,712	-	-	-	35,587,843
9.1. General result of accounting policy changes and adjustment of considerable mistakes										(3,444,346)				(3,444,346)
10.Recalculated balance	20,489,653	-	20,489,653	9,605,638	426,482	-	24,275	-	1,469,083	128,366	-	-	-	32,143,497
11. Operations with the shareholders, via shares, including														-
11.1. Investments in the share capital and other increase of the share capital														-
11.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks														-
12. Other comprehensive income														
13. Dividents														-
14. Increase/ decrease of equity items, including														-
14.1. Increase/ decrease of derivative instruments classified as equity instruments														-
14.2. Internal movements, including							(131,395)		32,830	626,475				527,910
15.1. Distribution to the General reserve														-
15.2. **Loss cover accumulated at** the expense of general reserve														-
15.3. Cover of emission loss														-
15.4. **Decrease of growth from the recalculation of fixed** assets and intangible assets									32,830					32,830
15.5. Internal movements of other equity items							(131,395)			626,475				495,080
*10. **Balance** at the end of interim reporting financial period as of 30.06.2018*	20,489,653	-	20,489,653	9,605,638	426,482	-	(107,120)	-	1,501,913	754,841	-	-	-	32,671,407

Chairman of the Executive Board — Mesrop Hakobyan

Chief Accountant — Gohar Grigoryan