Non official translation

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

"UNIBANK"OPEN JOINT-STOCK COMPANY

Main Issuer's 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

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

Class of bonds:	Nominal, non-convertible, coupon bonds
Form of bonds:	non-documentary
Quantity of bonds:	200,000 USD; 300,000 AMD
Par value (currency) of bonds:	100 USD; 10.000 AMD
Total bond placement price:	20mln USD; 3bln AMD
Coupon	Subject to further Board's decision
Repayment period	Subject to further Board's decision
Payment of coupon yield:	Subject to further Board's decision

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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	**Executive Board Member, Risk Management Director**	(signature)	(date)
Gohar Grigoryan	**Executive Board Member, Financial Director - Chief Accountant**	(signature)	(date)
Gurgen Ghukasyan	**Executive Board Member, 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	**Executive Board Member, Corporate Business Promotion and Sales Director**	(signature)	(date)
Artur Aperyan	**Executive Board Member, Operational and information Systems Director**	(signature)	(date)

SECTION 1. SUMMARY

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

The persons in charge of the Summary will 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 web site at www.unibank.am for an electronic copy.

1.1 Information on the Bank and Banking Activities

1.1.1. Issuer data and Communication methods

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 shares, investors may contact M. Hambardzumyan - Head of Investor Relations on +374 10 59 22 36 (extension 301).

1.1.2. Brief Description and History of the Bank

“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.

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.

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

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 30.06.2019 amounts over 350,000 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 30.06.2019 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 12% 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 Armenia Securities Exchange. 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.

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 line 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 and 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 international money transfer system

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 51 branches in Yerevan and regions, as well as having a representative office in Moscow, Russia.

The Bank's assets are summarized below.

Thousands AMD

thousands AMD	30.06.2019 (not audited)	31.12.2018 (audited)	31.12.2017 (audited)	31.12.2016 (audited)
Assets, including:	222,545,335	209,799,688	202,721,471	185,396,089
Earning assets	166,326,042	162,955,000	156,600,173	133,027,017
Specific gravity of earning assets	75%	78%	77%	72%

1.1.4. Issuer's Organisational Structure

Bank's organisational structure has been presented in the Anex 2 of the given Prospectus.

1.1.5. Assets quality

Asstes adequacy

According to the results of the second quarter of 2019, the Bank's net profit, according to unaudited reports, amounted to AMD 533 million, and the return on equity (net profit to average equity ratio) - 3.3%.

Assets quality

As of the second quarter of 2019, the Bank's loan portfolio amounted to AMD 151.2 billion.

Liquidity of assets:

The Bank intends to ensure sustainable and differentiated financial sources to provide for fast and cost-saving satisfaction of unexpected liquidity needs. The below table illustrates the CBA-set norms (average ratio of the final month in the reporting period).

Norms CBA set ratios	Actual ratio 2Q2019	Actual ratio 2018	Actual ratio 2017	Actual ratio 2016	Actual ratio 2015
N21*	25.8%	26.9%	25.3%	29.1%	21.5%
N2 2**	92.2%	107.1%	272.7%	372.1%	272.1%

* Minimum ratio between Bank's high liquid assets to total assets

** Minimum ratio between Bank's high liquid assets to demand liabilities

1.2 <u>Risks Related to the Issuer and Bonds</u>

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 30.06.2019:

Thousands AMD

Assets	Performing assets		
	Low Risk	Medium Risk	High Risk
Loans, including			
Residents of RA	101,932,232	2,024,118	36,093,038
Residents of CIS countries	8,752,481		2,421,650
Total	110,684,713	2,024,118	38,514,688

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

Loan reserve fund/total loans = 10.66 %

Non-performing loans/total loans = 16.25%

Reserve fund for non-performing loans/total equity = 32.13%

Special reserve for potential loan losses/non-performing loans = 38.96%

Income coverage ratio (net operating income + expenses for loan loss provision)/net loss of loans= 42.51%

Risk-weighted net interest margin = 3.84%
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 as a result of drastic changes in the market situation as well as 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 exchange 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.
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 Bank's Business Development and Financial Changes

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. As of 30.06.2019 statutory capital of the Bank equals to 33,059,473 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.

Lawsuits, expected changes

The Bank is not involved in litigation, arbitration and / or administrative litigation that may or may have had a significant impact on the Bank's financial position or profitability.

1.4 <u>The Bank's Auditors</u>

Independent audit for 2016, 2017 and 2018 was carried out by "Grant Thornton" CJSC. A relevant tender was announced for 2019 and according to the results of the competition, "Grant Thornton" CJSC was approved as an external auditor of the bank.

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 <u>Information on the Bank's Governing Bodies</u>

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 – Executive Director").

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

SHAREHOLDERS MEETING

↓

BANK BOARD

↓

EXECUTIVE BOARD

↓

EXECUTIVE BOARD CHAIRMAN –
EXECUTIVE DIRECTOR

The Bank Board consists of 7 members:

- Gagik Zakaryan – Chairman of the Board, over 25 years experience
- Georgi Piskov – Board member, over 25 years experience
- Hrahat Arzumanyan - Board member, 20 years experience
- Eduard Zamanyan - Board member, 26 years experience
- David Papazian - Board member, 13 years experience
- Vardan Atayan - Board member, 24 years experience
- Artem Konstandyan - Board member, 25 years experience

The Bank Executive Board consists of 8 members:

- Mesrop Hakobyan, Chairman of the Executive Board, 17 years experience
- Ararat Ghukasyan, First Vice-Chairman of the Executive Board, 25 years experience
- Gohar Grigoryan, Financial Director - Chief Accountant, 25 years experience
- Arakelyan Ovsanna, Vice-Chairman of the Executive Board – Director of Legal Services and Overdue Liabilities Collection, 20 years experience
- David Petrosyan, Director of Corporate Business Promotion and Sales, 16 years experience
- Ghukasyan Gurgen, Director of Retail Business Promotion and Sales, 14 years experience
- Tigran Badanyan - Risk Management Director, 26 years experience
- Arthur Aperyan, Operational and information Systems Director, 12 years of experience

The Bank had 804 employees on 30 June 2019.

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.The rest of the company's ordinary nominal shareholders belong to 6 legal entities and 156 individuals.

1.6 __Information on the issued securities__

10.07.2015

Securities class	Ordinary shares
Securities form	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 form	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 form	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 form	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 Armenia Securities Exchange 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
Bondholders 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 Armenia Securities Exchange 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
Bondholders 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 Armenia Securities Exchange 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
Bondholders 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 Armenia Securities Exchange 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
Bondholders 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 Armenia Securities Exchange 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

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

Short overview on issued USD denominated bonds (AMUNIBB26ER7)		
Bond ISIN		AMUNIBB26ER7
Bonds yield		5.5%
Bonds repayment period		22-Oct-2021
Coupon payment period		4
Allocated number of bonds		50,000
Allocated volume of bonds		5,000,000
Bonds average price		100.2399
Number of bond holders		107
Bondholders breakdown by individuals and legal entities	Individuals	104
	Legal entities	3

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

Short overview on issued AMD denominated bonds (AMUNIBB27ER5)		
Bond ISIN		AMUNIBB27ER5
Bonds yield		10%
Bonds repayment period		22-Oct-2020
Coupon payment period		4
Allocated number of bonds		50,000
Allocated volume of bonds		500,000,000
Bonds average price		10 008.75
Number of bond holders		40
Bondholders breakdown by individuals and legal	Individuals	39

entities	Legal entities	1

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

Short overview on issued AMD denominated bonds (AMUNIBB28ER3)		
Bond ISIN		AMUNIBB28ER3
Bonds yield		10%
Bonds repayment period		12-Nov-2020
Coupon payment period		4
Allocated number of bonds		50,000
Allocated volume of bonds		500,000,000
Bonds average price		10 008.86
Number of bond holders		52
Bondholders breakdown by individuals and legal entities	Individuals	51
	Legal entities	1

In April 2019 Unibank successfully placed USD nominal coupon bonds with the annual yield of 5%. In May 2019 USD-denominated nominal coupon bonds were listed at Armenia Securities Exchange stock exchange, Secondary list (Bbond).

Short overview on issued AMD denominated bonds (AMUNIBB28ER3)		
Bond ISIN		AMUNIBB29ER1
Bonds yield		5%
Bonds repayment period		20-March-2020
Coupon payment period		4
Allocated number of bonds		10,924
Allocated volume of bonds		1,092,400
Bonds average price		100,3873
Number of bond holders		49
Bondholders breakdown by individuals and legal entities	Individuals	48
	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 for USD tranche, 300,000 for AMD tranche
Securities nominal value (currency)	100 USD 10,000 AMD
Total securities nominal value	20 mln USD,

	3 bln AMD
Coupon payment frequency	Subject to Issuer's Board resolution
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 Board resolution 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.
Straight after the bond placement has been completed, the Bank will apply for the listing of bonds on the Armenian Stock Exchange as soon as possible. Bonds listing application may also be declined. The Bank may also apply for a double listing of bonds abroad, including the acting Russian Federation Stock Exchange. Bonds listing may also be declined.
The main purpose of the bonds placement by the Bank is the attraction of funds from the market. Attracted funds will be directed to the provision of loans.
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 the branch network. A buyer may be any resident or non-resident physical or legal person.

1.8 Final disclosure form

The final terms of issuance, placement, circulation and repayment of bonds are subject to Board resolution 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 Issuer is obliged to publish on its website the final Terms and Conditions of each tranche.

1.9 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	30.06.2019 (Not Audited)	31.12.2018 (Audited)	31.12.2017 (Audited)	31.12.2016 (Audited)
Net profit, after deducting the cost of profit tax	533,195	931,297	67,602	-443,218
Average equity	32,848,501	33,176,713	35,334,279	29,704,263
Return on equity (ROE), %	3.3%	2.8%	0.2%	-1.5%
Net profit, after deducting the cost of profit tax	533,195	931,297	67,602	-443,218
Average total assets	214,941,763	199,485,446	191,844,966	174,248,544
Return on assets (ROA), %	0.5%	0.5%	0.0%	-0.3%

Net profit, after deducting the cost of profit tax	533,195	931,297	67,602	-443,218
Operating income	7,112,530	14,762,553	13,454,274	10,831,503
Net profit margin (NPM), %	7.5%	6.3%	0.5%	-4.1%
Operating income	7,112,530	14,762,553	13,454,274	10,831,503
Average total assets	214,941,763	199,485,446	191,844,966	174,248,544
Assets utilization (AU), %	6.7%	7.4%	7.0%	6.2%
Average total assets	214,941,763	199,485,446	191,844,966	174,248,544
Average equity	32,848,501	33,176,713	35,334,279	29,704,263
Equity multiplier (EM)	6.54	6.01	5.43	5.87
Net interest income	4,935,721	10,518,060	10,491,356	8,361,044
Average profitable assets	163,678,352	151,855,857	148,972,966	131,429,702
Net profit margin (NIM)	6.1%	6.9%	7.0%	6.4%
Interest income	9,538,573	20,008,220	22,296,742	21,329,971
Average profitable assets	163,678,352	151,855,857	148,972,966	131,429,702
Yield on profitable assets	11.8%	13.2%	15.0%	16.2%
Interest expenses	4,602,852	9,490,160	11,805,386	12,968,927
Liabilities for which interest expenses are made	180,067,365	164,735,879	154,817,860	142,975,618
Expendability of those liabilities, in connection of which rate	5.2%	5.8%	7.6%	9.1%
Net profit, after deducting the cost of profit tax	533,195	931,297	67,602	-443,218
The weighted average number of shares	204,896,525	204,896,525	203,732,963	163,963,708
Earnings per share (EPS)	2.6	4.5	0.3	-2.7
Spread	6.6%	7.4%	7.3%	7.2%

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.

SECTION 2. INFORMATION ON THE iSSUED 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.

Market risk.

Market risk is the probability of the Bank's loss due to changes in market factors (foreign exchange rates, interest rates).The price and demand for the Issuer's bonds in the secondary market may change due to changes in the economic performance of domestic and international economies and / or expectations of such changes. The investor should take into account that the market price of securities may fluctuate and may decrease and / or increase over time. In order to reduce the negative impact of this risk on the Bank's financial performance, the Bank's Risk Management Directorate has set a risk appetite standard and developed appropriate market risk limits.

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).

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.

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.

Reinvestment risk. All investors who will purchase Issuer bonds in order to secure and obtain a repurchase agreement prior to redemption should note that they assume the risk of inability to reinvest the proceeds from regular coupon payments or the principal payment at least at the same rate of yield. It is likely that the risk of reinvestment does not play an essential role in the investment decision-making process for investors with current or short-term investment horizons.

Credit / default risk. Investors, when acquiring corporate bonds of any issuer, bear the credit risk of the issuer due to the deterioration of the future financial position of the issuer, the possibility of making coupon payments or the inability to repay the bonds at their face value and possible bankruptcy.

Inflation or purchasing risk. In case of inflation there is a decrease in purchasing power of cash flows. That is, when evaluating the nominal coupon yield offered by the issuer on its bonds, investors should keep in mind that the real yield may be lower than the nominal coupon yield.

Purchasing Power Risk: The investors have to assume that the actual income receivable by them can be smaller (at the rate of inflation) than the registered coupon yield offered by the Issuer due to inflationary pressures.

Rating Risk. In other equal terms, the bond price is usually directly dependent on the rating (s) describing the credit risk of the Issuer and / or the bond itself (Moody's, S&P, Fitch). In the result of rating decrease the bond price also usually reduced.

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.

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 classification. 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 06 September 2019. 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 "Armenia Securities Exchange" OJSC for bond listing. Bond listing application might not be admitted by "Armenia Securities Exchange" 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.

Investors may, at their discretion, alienate the bonds on the stock exchange (if listed and allowed to trade) or outside stock exchange, in the manner prescribed by law. Investors should take into account that the RA legislation does not allow to sell the corproate securities outside the regulated market (stock exchange) the exception are.

- ➢ Transactions concluded by the CBA. transactions between CBA and companies specialized in financial market
- ➢ Repurchase or acquisition transactions of securities issued by the issuer.

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.

2.3.11 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.

2.4 Offer period and terms

2.5.1 Total issue volumes

Securities quantity:	200,000 USD; 300,000 AMD
Securities nominal value:	100 USD; 10.000 AMD
Total securities nominal value:	20mn USD; 3bn AMD

The volume of each issue and placement tranche is subject to the Bank Board's decision.

The final issuance conditions for each issue of securities are submitted to the Central Bank and published at least two days before placement. The Issuer is obliged to publish on its website the final Terms and Conditions of each tranche.

2.4.2 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 order, it is necessary to deposit funds to the transit account preliminarily opened in "Unibank" OJSC.

2.4.3 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.

2.4.4 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 two working days (principle of T+2) after the relevant funds are accepted.

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

Once the relevant purchase order has been fulfilled, investors can obtain a statement of ownership of the securities from their Custodian Account Holder or Account Operator after the Issuer has been notified of their purchase orders.

Purchase orders of investors who failed to make an appropriate payment within the specified deadline after submission of the purchase order will be considered invalid and will not participate in the placement. With the exception of aforementioned, investors may not withdraw their orders after properly placing bond purchase orders, receiving confirmation /notification of the Bank's purchase order and making appropriate payment. Purchase orders for bonds received after the stipulated deadline for placement of bonds cannot be satisfied.

The application form for bonds purchase form by physical persons and 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.

2.5 Placement plan

Bonds placement will 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.

Where the number of bonds specified in the customer's purchase order exceeds the residual number of bonds intended for placement, the customer's purchase order will be satisfied in part according to the residual number of bonds, and if several customers have submitted a purchase order to the head office and to the branch at the same time and the number of bonds listed in the purchase order exceeds the residual number of bonds intended for placement, then customer purchase orders are satisfied proportionally.

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.

In case of placement on the Armenian Stock Exchange system, persons wishing to purchase a bond must deposit money in advance in accordance with the Securities Placement Rules.

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.

The issuer is obliged to submit a report on the process and results of the Placement to the CBA in the form and procedure established by the CBA normative legal acts.

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.

In case of placement on the Armenian Stock Exchange system, investors are informed about the satisfaction of their orders in the form and procedure established by the Securities Placement Rules.

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 2 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

2.7.1 The Bank is the executor of issued bonds placement. No underwriters exist, and no underwriting agreement has been effected. Issuer/Underwriter has not signed a co-placement agreement with other Underwriters and / or Group.

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.

2.7.4 The address of the Depository is: Vazgen Sargsyan 26/1, 5th floor (tel: (+374) 60 615555) Yerevan, Armenia Unibank OJSC Account Operator. Prior to the purchase of the bonds, investors are required to open a personal securities account at the Depository or any other licensed sub-custodian.

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 "Armenia Securities Exchange" 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 may also apply for a double listing of bonds abroad, including the acting Russian Federation Stock Exchange. Bonds listing may also be declined.
2.8.3. The Bank will 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 will be stipulated in the services agreement to be concluded with the latter. Bonds are quoted in "Armenia Securities Exchange" 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, 2019, 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 30.06.2019:

Thousands AMD

Assets	Performing assets	Non Performing assets	
	Low Risk	Medium Risk	High Risk
Loans, including			
Residents of	101,932,232		2,024,118

RA			
Residents of CIS countries	8,752,481		
Total	110,684,713		2,024,118

At the same time the indices characterizing the credit risk are as follows.
Loan reserve fund/total loans = 10.66 %
Non-performing loans/total loans = 16.25%
Reserve fund for non-performing loans/total equity = 32.13%
Special reserve for potential loan losses/non-performing loans = 38.96%
Income coverage ratio (net operating income + expenses for loan loss provision)/net loss of loans= 42.51%
Risk-weighted net interest margin = 3.84%

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.

Foreign exchange 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 51 branches. It has 28 branches in Yerevan, 20 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

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 18 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.
Unibank Privé received the SPEAR'S Russia Wealth Management Awards 2018 award for the best customer service of private banking services in the CIS countries
Unibank OJSC and FMO have finalised negotiations for USD 10 million facility for lending under "Women in Business" program in Armenia.
Unibank showcased the Private Banking at the IV International Forum SKYSERVICE 2019, which took place on April 24-25 in Moscow.
The Caucasus SME Banking Club Conference 2019 conference was held in Tbilisi, Georgia, on May 16-17. The participants discussed global trends and innovations in the SME financing segment. At the end of the conference, Unibank was chosen as one of the most innovative banks in 2018 and was awarded a SME Banking Club certificate.
Unibank Privé offers VIP clients efficient private capital management and financial planning. The bank's specialists provide full support not only in financial matters, but also in Lifestyle Management services.

Bank's Mission

"Unibank" OJSC is a dynamically developing and innovative bank that provides a full range of services to retail and corporate clients. The Bank sees its mission in promoting the economic development of the Republic of Armenia, increasing the financial well-being of customers, shareholders and partners, and meeting the public need for high-quality financial services.

Bank's values

- attentive and honest attitude to customers
- strong team spirit and effectiveness
- society's trust
- high brand awareness
- reliability and stability

Bank's strive

- strengthen its position and increase the financial market share
- to ensure a high culture of banking services
- to increase the availability of popular and high-tech banking services
- introduce a transparent business model and best practice of corporate culture
- to increase the investment attractiveness of the bank

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.

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.

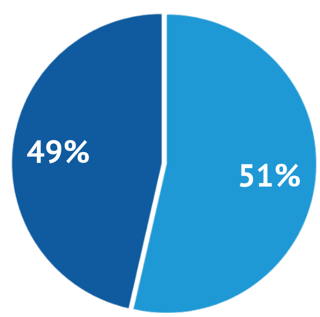
3.4 Business Overview

Adhering to its credit policy, the Bank continued to diversify its loan portfolio by increasing the share of retail loans and SME loans in the loan portfolio. The Bank was guided by the following criteria in selecting the lending segment: legal entities having established business, stable and predictable monthly cash inflows, individuals having medium and high level of income.

In lending to large enterprises, the Bank pursued a conservative policy, with most assets being short-term in relatively low-risk sectors. To this end, the Bank has regularly analyzed the sectors of the economy, as well as developed a SME Scoring Model for SME lending, automation of SME loan applications, upgrading of SME lending staff.

The chart below shows the shares of the Bank's Loan Portfolio structure as of 30.06.2019.

LOAN PORTFOLIO STRUCTURE

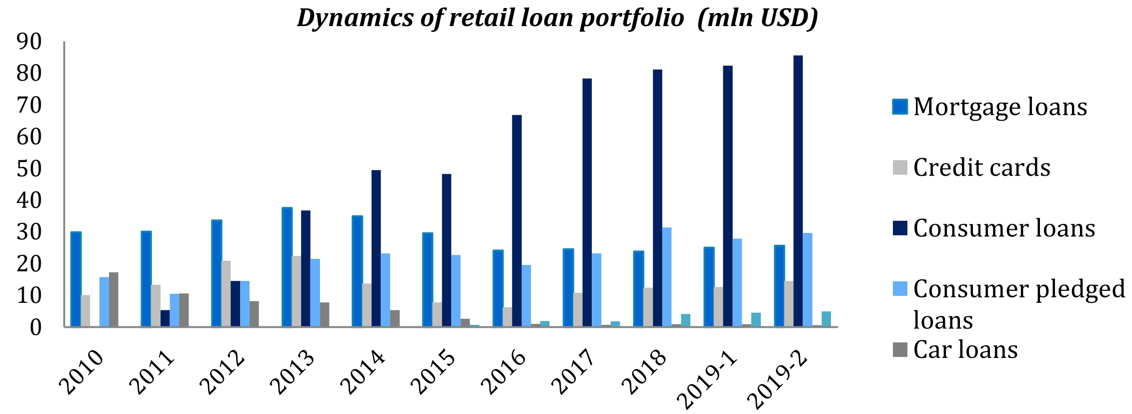


Retail business

Unibank's strategy has strengthened its current position as a retail bank by offering its customers specially designed banking services through its branch network. The Bank's retail sales are organized through its own branches and through partner companies.Bank's activity aimed at improving the credit products, optimizing business processes, enhancing customer service through enhanced customer feedback.

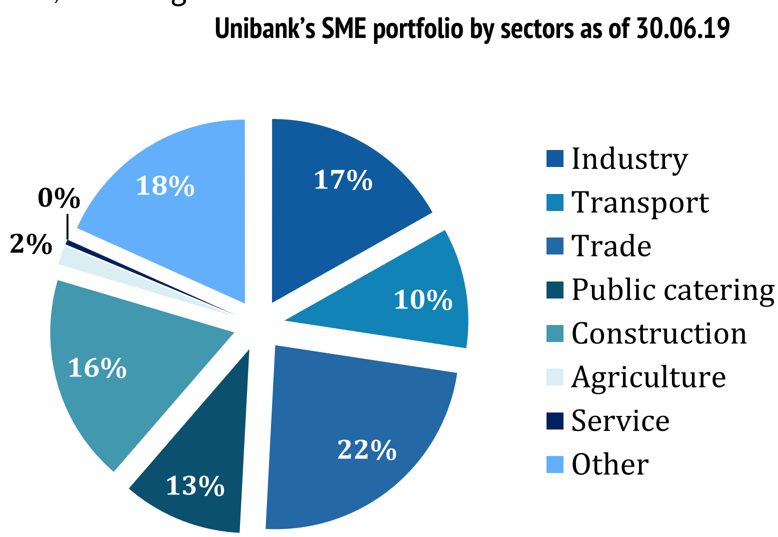
In the first half of this year the volume of consumer lending in Unibank increased by 22% compared to the same indicator of the previous year, and the number of credits - by 8%.
In the framework of the Central Bank's policy to reduce lending rates the Bank has offered more attractive terms of lending to its clients. There has been a stable increase in consumer loans for purchasing home appliances and and gold secured loans.
The Bank has continued its policy of reducing the cost of funding by setting moderate interest rates for time deposits.

The growth of loans Unibank provided to individuals for the period of 2010-2q2019 is shown below.



Corporate Business

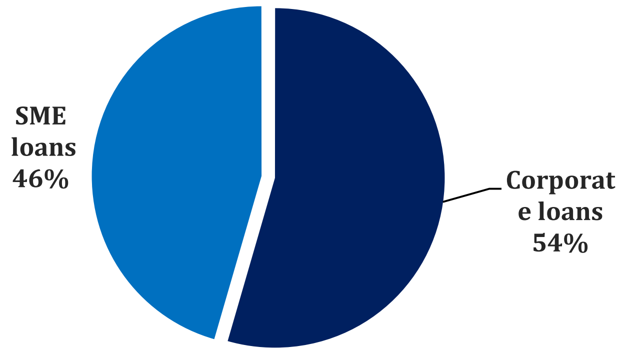
In line with the Micro and Small Business Development Strategy, during the 2nd quarter of 2019, Unibank continued active steps aimed at increasing access to credit for the aforementioned segment. Focusing on the target segments, the corporate business division's efforts were focused on financing the construction, service, including hotel and restaurant businesses.



Unibank and FMO implemented "Women in Business" program in Armenia in 2018, on attracting $ 10 million lending to female entrepreneurs under the program.

Signing an agreement with the Netherlands Development Bank FMO, in which women entrepreneurs were granted loans of up to half a million dollars at 10.5% per annum, with a maturity of up to 60 months.

Business loan portfolio structure as of 30.06.19



As of 30.06.2019, Unibank's service network includs 51 branches in Armenia and Artsakh, 114 promo points, 122 ATMs, 140 payment terminals. The Bank has a representative office in Moscow.
The bank serves more than 356,000 clients, 353,000 of which are retail.

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 order to strengthen its market position, from 2012 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 700 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.

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 trade, agriculture, 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.

Assets of the Bank equals to 222.5 bln AMD increasing by 12.7 bln AMD compared to the same period of previous year. As of 30.06.2019 credit portfolio of the Bank equals to 135.1 bln AMD, in comparison with 2018 the portfolio has increased by 0.61%, 9th place in the banking system.

Liabilities of the Bank equals to 189.5 bln AMD increasing by 12.2 bln AMD compared to the same period of previous year. Deposit portfolio of the Bank equals to 160.3 bln AMD increasing by 5.9% bln AMD compared to the same period of previous year. The latter has been secured generally by demand means attracted from the legal entities.

The bond portfolio of the bank amounted to AMD 9 billion instead of the planned AMD 11 billion due to the cancel of bonds issue in September conditioned with the tendency of over liquidity and increased interest rates on the resources involved.

Income from foreign exchange operations as of 30.06.2019 amounted to AMD 695 million. Commission income as of 30.06.2019 totaled AMD 1.347 billion, as compared to 2018 they increased by 127.8% or AMD 756 million.

The retail business portfolio increased by 2.2bln AMD drams or 2.9% compared to the previous year, conditioned by active provision of consumer secured loans and card loans. Mortgage portfolio increased by 58 million drams or 0.5% compared to the previous year. Unsecued consumer loans increased by AMD 785 million or 2%, meanwhile the POS loans portfolio that has decreased by 1.8 bln drams or 10%. Consumer secured loans increased by 595 million drams or by 4.4%, the car loan portfolio decreased by 144 million drams or by 33%. The volume of card loans has increased by 3% totalling to 7 bln drams. Gold secured consumer loans decreased by 104 million drams or by 4.6%.

Bank's capital

Capital adequacy ratio was 14.65% in June. The capital adequacy ratio exceeds the minimum level set by the Central Bank of the Republic of Armenia (12%). As of 30.06.2019 the regulatory capital amounted to AMD 30,393,957 thousand.

Income and expenses

As of 30.06.2019, the Bank's interest and similar income amounted to 9,538,573 thousand. AMD, which is about 1,371,411 thousand. Drams lower than the corresponding figure for the same period last year.
As of 30.06.2019 the Bank's interest and similar expenses totaled 4,602,852 thousand AMD, decreased by AMD 284,906 thousand compared to the same period of last year.

Interest and similar income	Reporting period (01.01.2019-30.06.2019) (thousand AMD)	Previous period (01.01.2018-30.06.2018) (thousand AMD)
Interest income on Bank's current accounts, deposits and loans placed in other banks and other financial institutions	289,470	12,233
Interest income on loans provided to the clients	8,641,355	10,111,801
Interest income on debt securities	586,919	726,917
Interest income on REPO agreements	805	53,503
Interest income on state interest securities kept up to repayment period		
Income from Factoring		
Accrued interests on individually amortized assets		
Other interest income	20,024	5,530

Total	9,538,573	10,909,984

Interest and similar expenses	Reporting period (01.01.2019-30.06.2019) ((thousand AMD)	Previous period (01.01.2018-30.06.2018) ((thousand AMD)
Interest expenses of the Bank's current accounts, deposits and loans attracted from the banks and other financial institutions	(264,316)	(189,213)
Interest expenses against term deposits and current accounts	(3,736,507)	(4,269,092)
Interest expenses on REPO agreements	(128,895)	(87,023)
Interest expenses from derrivative instruments	(11,828)	(1,839)
Interest expenses against term againts interest securities issued by the company	(270,868)	(158,911)
Loans to the Government	(134,453)	(181,680)
Finanical Leasing	(55,985)	
Other interest expenses		
Total	(4,602,852)	(4,887,758)

The bank's net profit as of 30.06.2019 equalled to 533 million drams.

Strategic priorities of 2019

In 2019 Bank intends to focus on its activities as follows:

- Expansion and improvement of credit products and services, development of high-profit areas,
- Development of card business,
- Ensuring quality customer service, developing remote service channels,
- Expansion of branch network for businesses in more promising cities and regions; modernization of technology base;
- Entering the Russian stock market,
- Ensuring financial efficiency and improvement of Unibank's position in the banking system,
- Increasing the Bank's investment attractiveness.

In order to increase the efficiency of international customer payment process, the Bank is expanding its network of correspondent relationships with leading foreign banks.

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

Increase in the volume of assets and liabilities by 233 and 198 billion drams, the growth of the loan portfolio by 14.5 billion drams (the priority task is to increase the share of profitable assets in total assets), with growth of business portfolio by 10.7 billion drams or by 18%, retail business portfolio growth by AMD 3.8 billion or 5%.

- 2019 Bank expects net profit of 2.375 billion drams as a result of realization of all business tasks
- 2019-2021 ensure a return on capital of 7-8% during the period;
- In addition to volume growth goals and market positioning, the Bank's most important objective is to improve credit portfolio quality and provide additional investment for non-performing assets;
- To place $ 20 million in foreign currency bonds;
- To enhance participation in international lending programs, especially within the framework of the European Investment Bank program and in the framework of cooperation with the Dutch Development Bank (FMO), under the Women in Business program for SME lending
- Improve the quality of service, especially with the full launch of mobile banking,
- Ensure corporate governance principles;
- Improve internal control systems, internal regulation, and reconciliation of performance ratings with the Bank's overall goals

  During the planned period, besides the abovementioned key performance indicators, the Bank has set itself the goal of increasing the overall investment volume of the Bank in the main business areas of its operations and in credit products. As stated in the program, one of the main goals of the bank is to create a homogeneous and diversified loan portfolio, which is possible only through the expansion of SME lending volumes and their increase in the total loan portfolio, as well as through the development of retail business.

3.6 Governing bodies and Governing bodies members

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.

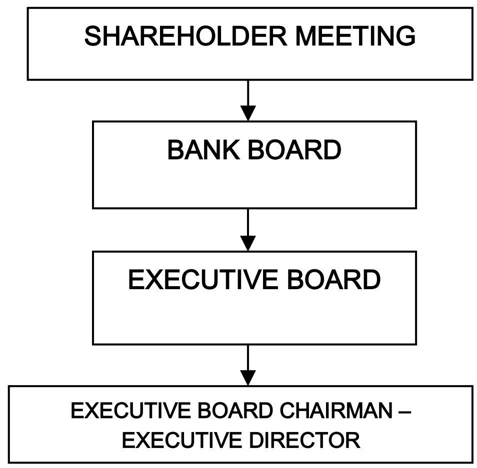
Unibank seeks to establish a corporate governance culture which will lead to the success of the Bank through regular staff training, corporate events, and establishing common goals in line with the mission of the Bank. Both the Board and Executive Board are supported by committees which make recommendations 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	«Russian support» Presidium member Russian Export and Investment Insurance Agency, Member of the Board of Directors MSP-bank, observing Board member	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	N/A	2009 - 2016 Management of HNW capital principal 2009 - 2014 Innqva, Mqscqw & 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 Grigoryan	Komitas 35, flat 26, Yerevan, Armenia	Financial Director - Chief Accountant, Executive 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	Executive Board member, Retail Business Promotion and Sales Director,	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	Executive Board member Corporate Business Promotion and	N/A	2012 - 2014 "Unibank" CJSC, Corporate Sales Department Director

		Sales Director,		
Tigran Badanyan	Sundukyan 3/57, Yerevan, Armenia	Executive Board member, Risk Managmeent Director	N/A	02.2017- 05.2017 Deputy Risk Managmeent Director, Unibank OJSC 06.1998թ.-02.2017թ.՝ Armenian Development Bank, Vice Chairman of the Executive Board, Executive Board member
Artur Aperyan	32 apartment, 1/13 building of Avan Arinj 2nd microregion,Yereva, Armenia	Executive Board member, Operational and information Systems Director	N/A	12.2017- 05.2019 Operational and information Systems Director, Unibank OJSC 07.2017-12.2017 Deputy Operational Director, Unibank OJSC 2012-2017 – Head of branch, Unibank OJSC

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 30 June 2019 the Bank had a total of 804 employees, including 7 Board members and 8 Executive Board members.

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
Vardan Atayan	Board Member	0.0027%
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.

3.7 Significant shareholders and control persons

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 154 individuals.

The Bank is indirectly controlled by the following persons:

George 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.

Transactions with affiliates

During the last year, the Bank has not entered into any transactions with affiliates that are worth more than 1% of the Bank's equity.

During the last year, the Bank has not concluded any transactions with non-affiliated entities in the amount of more than AMD 10 million.

3.8 Information on Issuer's assets and liabilities, on financial situation, profit and loss

Historical financial information

The Bank's audited annual financial statements for 2016, 2017 and 2018, as well as quarterly statements for 31.03.2019 and 30.06.2019 are attached to this Prospectus as Annex 4.

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.

Tax privileges

The Bank enjoys no tax privileges

3.9 Significant Agreements

No significant agreements concluded beyond the regular business scopes of the Bank and valid, the price whereof surpasses 5% of the equity stated in the Bank's financial statements for the recent reporting period have been effected in 2019.

Unibank does not have a direct or indirect stake of more than 5% in the statutory fund of other legal entities.

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.

Apart from the Issuer's historical financial statements verified by independent auditors and presented herein, no data presented in this Program Prospectus has been verified by an independent auditor. The statements and the supporting auditor's opinions are presented in Annex 4 hereto.
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.**

3.10 Other information

According to the 1.4 point of the Charter the Bank is entitled to carry out banking activities and financial operations as prescribed by the Law, upon issuance of banking activity license by Central Bank.The information on the right and responisibilities of the governing bodies of Bank are described in the section 10 of the Bank's Charter. 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

THE INVESTOR, BY REVIEWING THIS PROGRAM PROSPECTUS, HAS TO INDEPENDENTLY ASSESS THE RISK OF THEIR INVESTMENT IN PARTICULAR SECURITIES, PRIOR TO DECISION ON ACQUISITION.

ANNEX 1.

Unibank OJSC Bonds Purchase order

Date

Թողարկվող պարտատոմսերի վերաբերյալ համառոտ տեղեկատվություն
Brief Summary of Bonds Issued

Թողարկող **Issuer**	
Թողարկման արժույթը **Currency of denomination**	
Թողարկման ծավալը **Issue volume**	
Պարտատոմսի ԱՄՏԾ **BOND ISIN**	

Ներդրողի վերաբերյալ տեղեկություններ
Investor Information

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**	

Ձեռքբերման Հայտի վերաբերյալ տեղեկություններ
Subscription Information

Պարտատոմսերի քանակը **Number of Bonds**	
Գործարքի ծավալը **Transaction volume**	
Գործարքի գումար **Transaction price**	
Գործարքի գին **Transaction unit 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 bonds.

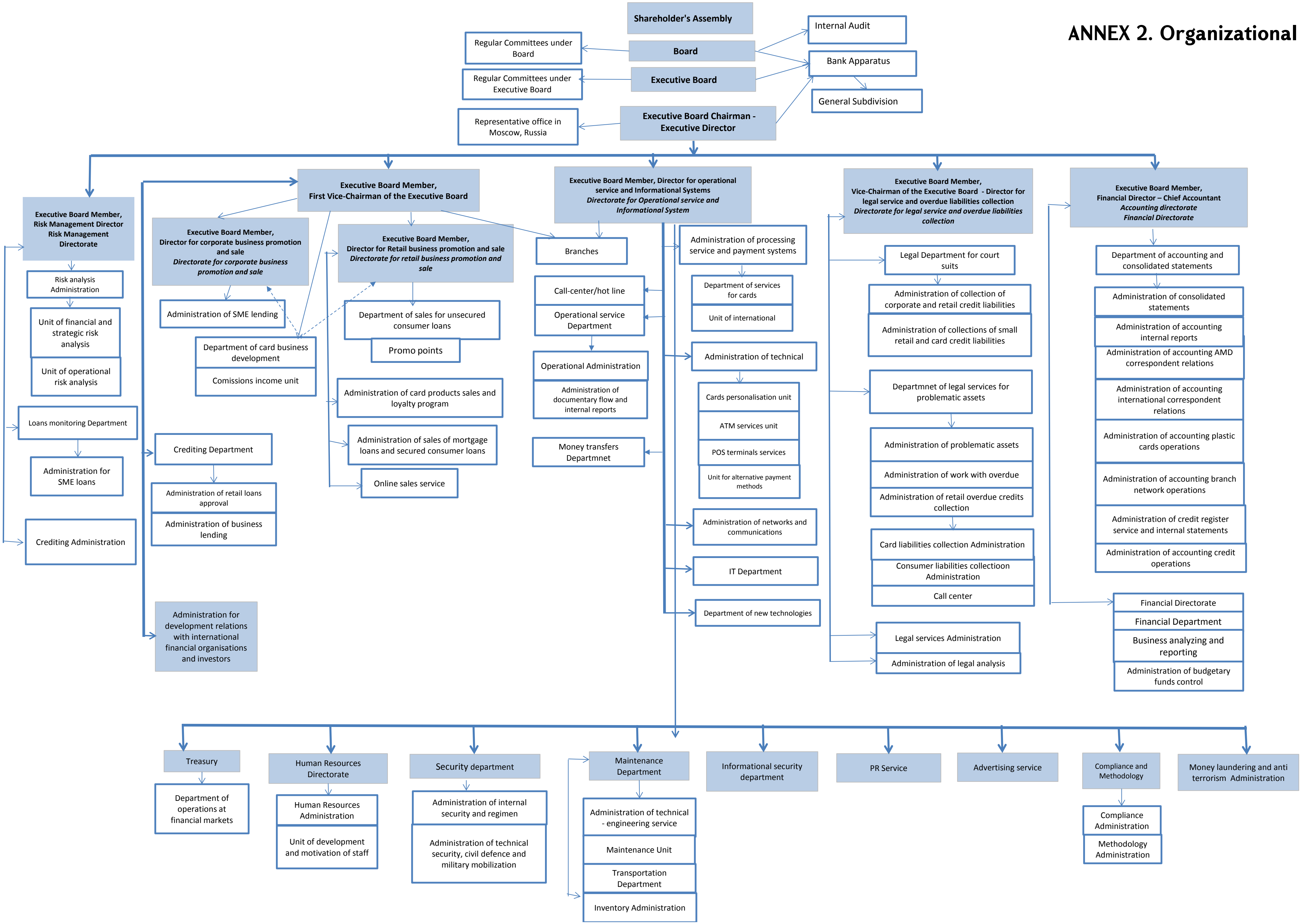
Ներդրող՝

Investor

________________________ ________________________

անուն, ազգանուն / full name ստորագրություն / signature

ANNEX 2. Organizational chart



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 The minimum volume of bonds purchase is limited to 1,000 USD for bonds in USD and 1 mln AMD for bonds in AMD.		
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	**Executive Board Member, Risk Management Director**	(signature)	(date)
Gohar Grigoryan	**Executive Board Member, Financial Director - Chief Accountant**	(signature)	(date)
Gurgen Ghukasyan	**Executive Board Member, 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	**Executive Board Member, Corporate Business Promotion and Sales Director**	(signature)	(date)
Arthur Aperyan	**Executive Board Member, Operational and information Systems Director**	(signature)	(date)

ANNEX 4.

The Bank's audited annual financial statements for 2016, 2017 and 2018, as well as quarterly statements for 31.03.2019 and 30.06.2019.

Financial Statements and Independent Auditor's Report

UNIBANK open joint stock company

31 December 2016

Contents

Independent auditor's report

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www.grantthornton.am

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.

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	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total 2015
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
Managing Partner

Emil Vassilyan
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

										As of 31 December 2016
In thousand Armenian drams	Industry	Agriculture	Construction	Transport	Trading	Service	Consumer	Mortgage	Other	Total
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	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	31,843,954	-	-	-	-	-	-	-	-	-	31,843,954
Amounts due from other financial institutions	995,550	-	-	-	-	-	-	-	-	-	995,550
Derivative financial assets	3,086	-	-	-	-	-	-	-	-	-	3,086
Loans and advances to customers	-	8,240,081	525,371	9,041,322	5,612,689	23,405,955	7,743,706	53,358,355	11,386,389	15,814,024	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	54,311,785	8,240,081	525,371	9,041,322	5,612,689	23,405,955	7,743,706	53,358,355	11,386,389	15,814,024	189,439,677
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

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:

				2017
In thousand Armenian drams	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.

Financial Statements
and Independent Auditor's Report

"Unibank" open joint stock company

31 December 2018

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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 2018, 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 2018 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

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.

- *First time adoption of IFRS 9*

Refer to note 4 of the financial statements for a description of the accounting policies and to note 35.1 for an analysis of credit risk.

The International Accounting Standards Board (IASB) issued IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments". The key changes arising from adoption of IFRS 9 are that the Bank's impairment losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Bank's financial assets and liabilities, which are detailed in note 4.4 to the financial statements.

As described in the notes to the financial statements, the financial assets have been classified and the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to classify the financial assets as well as to determine the impairment reserve.

Key areas of judgment included: the assessment of the business model within which the assets are held, the assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following;

- We read the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;
- We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test] performed by the Bank's consultant; and
- We checked the appropriateness of the opening balance adjustments.

With respect to impairment methodology, our audit procedures comprised the following;

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of date and interfaces to the expected credit loss model;
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy;
- We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;
- For a sample of exposures, we checked the appropriateness of the Bank's staging;
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions to changes in modeling assumptions;
- For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information;
- We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis;
- We checked the completeness of loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2018; We understood the theoretical soundness and tested the mathematical integrity of the Models;
- For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the

expected credit loss model);

- We checked the appropriateness of the opening balance adjustments.

We assessed the accuracy of the disclosures in the financial statements.

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 2018, 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 theBank'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 Armen Hovhannisyan.

Gagik Gyulbudaghyan
Managing Partner

Armen Hovhannisyan
Engagement Partner

29 April 2019

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	2018	2017
Interest and similar income	7	20,008,220	22,296,742
Interest and similar expense	7	(9,490,160)	(11,805,386)
Net interest income		10,518,060	10,491,356
Fee and commission income	8	2,186,448	897,588
Fee and commission expense	8	(365,896)	(298,538)
Net fee and commission income		1,820,552	599,050
Net trading income	9	824,570	631,274
Other income	10	1,599,371	1,732,594
Credit impairment losses	11	(5,525,293)	(5,974,493)
Staff costs	12	(3,798,717)	(3,480,771)
Depreciation of property and equipment	21	(397,354)	(511,350)
Amortization of intangible assets	22	(98,388)	(88,762)
Other expenses	13	(3,485,842)	(3,148,856)
Profit before income tax		1,456,959	250,042
Income tax expense	14	(525,662)	(182,440)
Profit for the year		931,297	67,602
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation losses on equity instruments at fair value through other comprehensive income		(102,335)	N/A
Revaluation of property and equipment		32,831	255,764
Income tax relating to items not reclassified		13,901	(51,153)
Net gains from items that will not be reclassified subsequently to profit or loss		(55,603)	204,611
Items that will be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
Net change in fair value during the year		724,749	N/A
Net amount reclassified to the income statement on sale of debt instruments at FVOCI		(2,080)	N/A
Changes in allowance for expected credit losses		24,176	N/A
Income tax related to the above		(144,534)	N/A
Net gains on financial investments at fair value through other comprehensive income		602,311	N/A

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams	Notes	2018	2017
Movement in fair value reserve (available-for-sale)			
Net unrealized gains from changes in fair value from available-for-sale financial assets		N/A	507,685
Income tax related to the above		N/A	(101,537)
Net gains on available-for-sale financial assets		N/A	406,148
Other comprehensive income for the year, net of tax		546,708	610,759
Total comprehensive income for the year		1,478,005	678,361
Earnings per share	15	0.00268	(0.00045)

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 80.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	16	32,049,007	31,843,954
Derivative financial assets	17	785	3,086
Amounts due from financial institutions	18	12,983,447	995,550
Loans and advances to customers	19	134,279,082	135,127,892
Investment securities	20		
- Investments available for sale		N/A	13,592,031
-Investment securities at fair value through other comprehensive income		3,817,080	N/A
-Investment securities at amortised cost		12,822,788	N/A
Securities pledged under repurchase agreements		-	7,877,164
Property, plant and equipment	21	8,549,052	8,193,410
Intangible assets	22	1,629,345	1,420,274
Prepaid income taxes		-	113,435
Other assets	23	3,669,102	3,554,675
Total assets		209,799,688	202,721,471
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	9,039,951	17,250,526
Amounts due to customers	25	151,452,004	128,427,923
Derivative financial liabilities	17	12,813	9,993
Borrowings	26	6,636,888	14,744,564
Debt securities issued	27	8,576,459	5,139,360
Income tax liability		60,492	-
Deferred income tax liabilities	14	526,588	1,131,722
Other liabilities	28	946,049	656,030
Total liabilities		177,251,244	167,360,118
Equity			
Share capital	29	20,489,653	20,489,653
Share premium		9,605,638	9,605,638
Statutory general reserve		448,298	426,482
Other reserves		1,239,518	1,493,358
Retained earnings		765,337	3,346,222
Total equity		32,548,444	35,361,353
Total liabilities and equity		209,799,688	202,721,471

The financial statements were signed on 29 April 2019 by:

Hakobyan Mesrop
Chairman of the Executive Board

Gohar Grigoryan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 80.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
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
Impact of adopting IFRS 9 (note 6)	-		-	(800,548)	-	(3,108,053)	(3,908,601)
Restated balance at 1 January 2018	20,489,653	9,605,638	426,482	(776,273)	1,469,083	238,169	31,452,752
Profit for the year	-	-	-	-	-	931,297	931,297
Other comprehensive income:							
Net change in fair value of equity instruments at FVOCI	-	-	-	(102,335)	-	-	(102,335)
Revaluation of property and equipment	-		-	-	32,831	-	32,831
Net change in fair value of debt instrument at FVOCI	-		-	724,749	-	-	724,749
Net amount reclassified to the statement of profit and loss on sale of debt instruments at FVOCI	-		-	(2,080)	-	-	(2,080)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-		-	24,176	-	-	24,176
Income tax relating to components of other comprehensive income	-		-	(124,067)	(6,566)	-	(130,633)
Total comprehensive income for the year	-	-	-	520,443	26,265	931,297	1,478,005
Distribution to reserve	-		21,816	-	-	(21,816)	-
Dividends to shareholders	-	-	-	-	-	(382,313)	(382,313)
Total transactions with owners	-	-	21,816	-	-	(404,129)	(382,313)
Balance as of 31 December 2018	20,489,653	9,605,638	448,298	(255,830)	1,495,348	765,337	32,548,444

Statement of changes in equity (continued)

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2017	19,093,378	7,790,481	426,482	(381,873)	1,297,921	6,616,654	34,843,043
Profit for the year	-	-	-	-	-	67,602	67,602
Other comprehensive income:							
Revaluation of property and equipment	-	-	-	-	255,764	-	255,764
Adjustment to reserve from the sale of property and equipment	-	-	-	-	(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
Increase in share capital	1,396,275	1,815,157	-	-	-	(3,211,432)	-
Dividends to shareholders	-	-	-	-	-	(160,051)	(160,051)
Total transactions with owners	1,396,275	1,815,157	-	-	-	(3,371,483)	(160,051)
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 statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 80.

Statement of cash flows

In thousand Armenian drams

	2018	2017
Cash flows from operating activities		
Profit before tax	1,456,959	250,042
Adjustments for		
Impairment charge of financial assets	5,525,293	5,974,493
Gains from reversal of impairment and sale of repossessed	(19,891)	(58,295)
Impairment of property and equipment	-	7
Amortization and depreciation allowances	495,742	600,112
Loss from sale of property and equipment	13,193	2,938
Gains from sale of other assets	(72,915)	-
Interest receivable	92,119	726,148
Interest payable	(33,396)	(369,819)
Revaluation of derivative financial instruments	417,107	(29,751)
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	(507,545)	428,837
Cash flows from operating activities before changes in operating assets and liabilities	7,366,666	7,524,712
(Increase)/decrease in operating assets		
Amounts due from financial institutions	(12,137,901)	2,294,537
Derivative financial instruments	(396,585)	112,087
Loans and advances to customers	(10,076,481)	(24,857,814)
Other assets	1,010,794	4,681,142
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	1,110,502	1,720,527
Amounts due to customers	25,141,193	(293,153)
Other liabilities	26,462	17,143
Net cash flow from/(used in) operating activities before income tax	12,044,650	(8,800,819)
Income tax	(110,352)	(32,425)
Net cash from/(used in) operating activities	11,934,298	(8,833,244)
Cash flows from investing activities		
(Purchase)/sale of investment securities	4,342,926	(6,752,977)
Purchase of property and equipment	(755,300)	(968,266)
Proceeds from sale of property and equipment	21,942	168,038
Purchase of intangible assets	(307,459)	(128,935)
Net cash from/(used in) investing activities	3,302,109	(7,682,140)

Statement of cash flows (continued)

In thousand Armenian drams

	2018	2017
Cash flow from financing activities		
Dividends paid	(160,050)	(160,051)
Loans received/(repaid) to financial institutions	(9,303,169)	10,432,480
Issue of bonds	3,446,491	2,465,424
Other long-term loans and advances received	(8,066,728)	1,366,159
Net cash from/(used in) financing activities	(14,083,456)	14,104,012
Net increase/(decrease) in cash and cash equivalents	1,152,951	(2,411,372)
Cash and cash equivalents at the beginning of the year	31,843,954	33,547,636
ECL	(35,785)	-
Exchange differences on cash and cash equivalents	(912,113)	707,690
Cash and cash equivalents at the end of the year (note 16)	32,049,007	31,843,954
Supplementary information:		
Interest received	20,100,339	23,022,890
Interest paid	(9,523,556)	(12,175,205)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 80.

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 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 March 14, 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.

On June 29 2018 the international rating agency Moody's Investors Service approved the Bank’s deposit attraction B3/NP rating, b3 base credit rating, B2(cr)/NP(cr) counterparty risk rating. 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 instruments at fair value through profit or loss and at fair value through other comprehensive income (before 1 January 2018 available for sale assets). 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 land, buildings and the computer and communication technologies 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 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 Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in note 6.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in note 4.4.2**.** The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 6.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Under IFRS 9, no impairment loss is recognised on equity investments. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment assessment are disclosed in note 35.1.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 6.

IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 6, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 35.1.2.

Other new standards and amendments described below and applied for the first time in 2018, did not have a material impact on the annual consolidated financial statements of the Bank.

- *"Revenue from contracts with customers" (IFRS 15) and "Revenue from contracts with customer", Clarifications (Amendment to IFRS 15)*
- *"Share based payments" classification and measurement of share-based payment transactions (Amendment to IFRS 2)*
- *Annual Improvements to IFRSs 2014-2017 Cycle – Amendments to IFRS 1 and IAS 28*
- *Amendments to IAS 40 Investment Property: Transfers of Investment Property*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

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 16 Leases

IFRS 16 will replace IAS 17 "Leases" and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Bank have decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Bank:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Bank has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset
- believes that the most significant impact will be that the Bank will need to recognise a right of use asset and a lease liability for the office buildings currently treated as operating leases.
- concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position

The Bank is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the Bank need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Bank are currently assessing the impact of applying these other transitional reliefs.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the Bank does not expect any changes for leases where they are acting as a lessor.

Other standards

- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019),
- Amendment to IFRS 9 "Financial instruments"-Prepayment features with negative compensation (effective from 1 January 2019),
- Amendment to IAS 28, "Investments in associates" Long term interests in associates and joint ventures (effective from 1 January 2019),
- Amendment to IAS 19 "Employee benefits" – Plan amendment, curtailment or settlement (effective from 1 January 2019),
- Annual Improvements to IFRSs 2015-2017 (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:

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the income statement.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 4.4.6.

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.

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

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 investment securities at fair value through other comprehensive income (as available for sale before 01 January 2018) 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 (applicable for the financial statements as of 31 December 2017). 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 equity investment in respect of which an election has been made to present subsequent changes in fair value in OCI (available-for-sale equity instruments before 1 January 2018) 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 2018	31 December 2017
AMD/1 US Dollar	483.75	484.10
AMD/1 EUR	553.65	580.10
AMD/1 RUB	6.97	8.40

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 Financial instruments

4.4.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which The Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial assets – Policy applicable before 1 January 2018

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see note 4.4.3) and a new financial asset is recognised at fair value.

Policy applicable from 1 January 2018

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Policy applicable before 1 January 2018

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

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

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

4.4.6 Impairment

Policy applicable from 1 January 2018

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments
- financial guarantee contracts

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 35.1.2.

Based on the above process, the Bank groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 35.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 4.4.4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset

that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs the shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

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 Bank 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 Bank 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 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 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.

4.5 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.

4.6 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 Trading assets and liabilities

"Trading assets and liabilities" are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

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.

4.8 Loans and advances

Loans and advances 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.

4.9 Investment securities

Policy applicable from 1 January 2018

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Available-for-sale financial assets

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

Fair value through profit or loss

The Bank designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

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.

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 in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

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

4.12 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 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.

4.14 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. Bank's buildings and land and the computer and communication technologies are presented at fair value less accumulated depreciation. If the recoverable value of property and equipment 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	80	1.25
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.

Land and buildings and the computer and communication technologies are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment

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.

4.15 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 recognized as an expense as incurred.

4.16 Repossessed assets

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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.

4.17 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.

4.18 Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

4.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions also include liabilities arising from financial guarantees and loan commitments as provided in note 4.18.

4.20 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 surplus

The property revaluation surplus 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.

Fair value reserve for investments securities at FVOCI

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

4.21 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:

Business models and SPPI

The Bank assesse of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (see note 4.4.2).

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).

Useful life of property and equipment

Useful life evaluation of property and equipment 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. 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 financial instruments

The Bank assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (see note 35.1.2), as well as the key assumptions used in estimating recoverable cash flows (see note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. See note 30.

6 Transition disclosure

The following set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

In thousand Armenian drams	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	31,843,954	31,837,387
Derivative financial assets	FVTPL	FVTPL (mandatory)	3,086	3,086
Amounts due from financial institutions	Loans and receivables	Amortised cost	995,550	991,975
Loans and advances to customers	Loans and receivables	Amortised cost	135,127,892	131,289,254
Investment securities – debt	Available for sale	FVOCI	21,447,735	8,991,228
Investment securities – debt	Available for sale	Amortised cost	-	11,439,853
Investment securities - equity	Available for sale	FVOCI	21,460	21,460
Other financial assets	Loans and receivables	Amortised cost	196,951	194,803
Total financial assets			189,636,628	184,769,046
Financial liabilities				
Amounts due to financial institutions	Amortised cost	Amortised cost	17,250,526	17,250,526
Amounts due to customers	Amortised cost	Amortised cost	128,427,923	128,427,923
Derivative financial liabilities	FVTPL	FVTPL	9,993	9,993
Borrowings	Amortised cost	Amortised cost	14,744,564	14,744,564
Debt securities issued	Amortised cost	Amortised cost	5,139,360	5,139,360
Other liabilities	Amortised cost	Amortised cost	400,375	400,375
Total financial liabilities			165,972,741	165,972,741

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows.

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remeasure-ment /ECL/	Remeasure-ment /Other/	IFRS 9 carrying amount 1 January 2018
Financial assets					
Amortised cost					
Cash and cash equivalents					
Opening balance	31,843,954				
Remeasurement			(6,567)		
Closing balance					31,837,387
Amounts due from financial institutions					
Opening balance	995,550				
Remeasurement			(3,575)		
Closing balance					991,975

In thousand Armenian drams	**IAS 39 carrying amount 31 December 2017**	**Reclassifi-cation**	**Remeasure-ment /ECL/**	**Remeasure-ment /Other/**	**IFRS 9 carrying amount 1 January 2018**
Loans and advances to customers					
Opening balance	135,127,892				
Remeasurement			(3,838,638)		
Closing balance					131,289,254
Investment securities – debt					
Opening balance	-				
From available-for-sale		12,456,507	(13,546)	(1,003,108)	
Closing balance					11,439,853
Other assets- other financial assets					
Opening balance	196,951				
Remeasurement			(2,148)		
Closing balance					194,803
Total amortised cost	168,164,347	12,456,507	(3,864,474)	(1,003,108)	175,753,272
Available-for-sale					
Investment securities					
Opening balance	21,469,195				
To FVOCI – Equity		(21,460)		N/A	
To amortised cost		(12,456,507)		N/A	
To FVOCI – Debt		(8,991,228)		N/A	
Closing balance					N/A
FVOCI-debt					
Investment securities					
Opening balance	-				
From available-for-sale		8,991,228			
Closing balance					8,991,228
FVOCI-equity					
Investment securities					
Opening balance	N/A				
From available-for-sale		21,460	N/A		
Closing balance					21,460
Total FVOCI	21,469,195	(12,456,507)	-	-	9,012,688
FVTPL					
Financial derivatives	3,086	N/A	N/A	N/A	3,086
Total FVTPL	3,086	N/A	N/A	N/A	3,086

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remeasure-ment /ECL/	Remeasure-ment /Other/	IFRS 9 carrying amount 1 January 2018
Financial liabilities					
Amortised cost					
Amounts due to financial institutions	17,250,526	N/A	N/A	N/A	17,250,526
Amounts due to customers	128,427,923	N/A	N/A	N/A	128,427,923
Borrowings	14,744,564				14,744,564
Debt securities issued	5,139,360	N/A	N/A	N/A	5,139,360
Other liabilities	400,375	N/A	N/A	N/A	400,375
Total amortised cost	165,962,748	N/A	N/A	N/A	165,962,748
FVTPL					
Derivative financial liabilities	9,993	N/A	N/A	N/A	9,993
Total FVTPL	9,993	N/A	N/A	N/A	9,993

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows.

In thousand Armenian drams	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	24,275
Reclassification of debt securities from available-for-sale to amortised cost	(1,003,108)
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	1,938
Deferred tax in relation to the above	200,622
Opening balance under IFRS 9 (1 January 2018)	(776,273)
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	3,346,222
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(3,884,582)
Deferred tax in relation to the above	776,529
Opening balance under IFRS 9 (1 January 2018)	238,169
Total change in equity due to adopting IFRS 9	3,908,601

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

In thousand Armenian drams	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and cash equivalents	-	(6,567)	(6,567)
Amounts due from financial institutions	-	(3,575)	(3,575)
Loans and advances to customers	(5,756,884)	(3,838,638)	(9,595,522)
Available-for-sale debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9:	-	(13,546)	(13,546)
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	(1,938)	(1,938)
Other financial assets	(12,707)	(2,148)	(14,855)
	(5,769,591)	(3,866,412)	(9,636,003)
Loan commitments and financial guarantee contracts issued	-	(18,170)	(18,170)
	-	(18,170)	(18,170)
Total impairment allowance	(5,769,591)	(3,884,582)	(9,654,173)

7 Interest and similar income and expense

In thousand Armenian drams	2018	2017
Loans and advances to customers	18,697,683	19,787,690
Investment securities at FVOCI (2017 available-for-sale)	108,501	2,067,391
Investment securities at amortised cost (2017 held-to-maturity)	1,001,105	-
Amounts due to financial institutions	181,395	33,641
Income from guarantee agreements	14,604	-
Reverse repurchase transactions	901	125,646
Interest accrued on individually impaired financial assets	-	266,106
Derivative financial instruments	4,031	16,268
Total interest and similar income	20,008,220	22,296,742

In thousand Armenian drams	2018	2017
Amounts due to customers	7,706,763	9,553,380
Amounts due to financial institutions	379,796	431,511
Government loans	329,541	325,569
Repurchase transactions	118,864	37,482
Borrowings	551,910	1,206,733
Bonds issued	390,601	250,711
Derivative instruments	12,685	-
Total interest and similar expense	9,490,160	11,805,386

8 Fee and commission income and expense

In thousand Armenian drams	2018	2017
Cash collection	350,015	433,879
Plastic cards operations	1,173,051	200,476
Guarantees and letters of credit	81,850	16,522
Foreign currency translation operations	481,286	99,975
Other fees and commissions	100,246	146,736
Total fee and commission income	2,186,448	897,588
Wire transfer fees	140,379	70,300
Plastic cards operations	192,142	181,735
Foreign currency translation operations	6,364	6,447
Stock exchange services	19,380	13,638
Other expenses	7,631	26,418
Total fee and commission expense	365,896	298,538

9 Net trading income

In thousand Armenian drams	2018	2017
Gains less losses from transactions in foreign currencies	1,239,597	601,523
Gains less losses from derivatives	(417,107)	29,751
Gains less losses from investments	2,080	-
Total net trading income	824,570	631,274

10 Other income

In thousand Armenian drams	2018	2017
Fines and penalties received	926,276	1,273,075
Foreign currency translation net gains of non-trading assets and liabilities	507,545	-
Reversal of impairment of repossessed assets	19,891	93,148
Gains from operations of precious metals	-	7,121
Gains from sale of other assets	72,915	-
Gains from guarantee agreements	48,922	-
Income from leased assets	20,062	341,248
Other income	3,760	18,002
Total other income	1,599,371	1,732,594

11 Credit impairment losses

2018 In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2018	Total 2017
Cash and cash equivalents	16	29,218	-	-	29,218	-
Amounts due from financial institutions	18	67,538	-	-	67,538	-
Loans and advances to customers	19	301,676	176,831	4,695,296	5,173,803	5,940,569
Investment securities measured at FVOCI	20	24,176	-	-	24,176	-
Investment securities measured at amortised cost	20	94,492	-	-	94,492	-
Other assets	23	75,173	-	-	75,173	33,924
Financial guarantees and loan commitments	30	60,893	-	-	60,893	-
Total impairment losses		653,167	176,831	4,695,295	5,525,293	5,974,493

12 Staff costs

In thousand Armenian drams	2018	2017
Compensations of employees, related taxes included	3,796,686	3,477,720
Staff training and other costs	2,031	3,051
Total staff costs	3,798,717	3,480,771

13 Other expenses

In thousand Armenian drams	2018	2017
Fixed assets maintenance	623,087	594,812
Advertising costs	274,335	242,762
Business trip expenses	22,588	12,453
Communications	173,264	150,716
Operating lease	469,988	462,856
Taxes, other than income tax, duties	408,349	389,813
Foreign currency translation net losses of non-trading assets	-	428,837
Consulting and other services	83,023	31,813
Security	97,998	53,869
Representative expenses	143,138	50,892
Office supplies	186,375	87,439
Penalties paid	2,012	2,118
Deposit insurance	374,815	333,306
Computer software maintenance	44,160	44,640
Cash collection services	79,535	67,948
Loss on impairment of property and equipment	-	7
Loss on disposal of property and equipment	13,193	2,938
Loss on disposal of repossessed assets	-	34,853
Loss from operations of precious metals	4,982	-
Charitable donations	196,062	23,320
Other expenses	288,938	133,464
Total other expense	3,485,842	3,148,856

14 Income tax expense

In thousand Armenian drams	2018	2017
Current tax expense	284,278	161,386
Deferred tax	241,384	21,054
Total income tax expense	525,662	182,440

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2017: 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	2018	Effective rate (%)	2017	Effective rate (%)
Profit before tax	1,456,959		250,042	
Income tax at the rate of 20%	291,392	20	50,008	20
Non-taxable income	(3,978)	-	(26,991)	(10)
Other taxable income	4,144	-	2,186	1
Non-deductible expenses	252,192	17	65,520	26
Gains less losses from derivatives	83,421	6	5,950	2
Foreign exchange difference	(101,509)	(7)	85,767	34
Income tax expense	525,662	36	182,440	73

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2017	Impact of adopting IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	2018 Net	2018 Deferred tax asset	2018 Deferred tax liability
Cash and cash equivalents	-	1,313	5,844	-	7,157	7,157	-
Amounts due from financial institutions	(21,374)	715	11,498	-	(9,161)	-	(9,161)
Investments in securities	(4,934)	203,331	18,898	(124,067)	93,228	93,228	-
Loans and advances to customers	(805,482)	767,728	(242,413)	-	(280,167)	-	(280,167)
Property and equipment	(353,191)	-	6,638	(6,566)	(353,119)	-	(353,119)
Other assets	-	430	(53,121)	-	(52,691)	-	(52,691)
Other liabilities	73,220	-	(5,497)	-	67,723	67,723	-
Contingent liabilities	(19,961)	3,634	16,769	-	442	442	-
Deferred tax asset/(liability)	(1,131,722)	977,151	(241,384)	(130,633)	(526,588)	168,550	(695,138)

In thousand Armenian drams	31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	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)
Property and equipment	(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)

15 Earnings per share

In thousand Armenian drams	2018	2017
Profit for the year	931,297	67,602
Dividends on preferred shares	(382,313)	(160,051)
Profit/(Loss) less dividends on preferred shares	548,984	(92,449)
Weighted average number of ordinary shares (number of shares)	204,896,529	203,366,365
Profit/(Loss) per share – basic	0.002679	(0.0004546)

16 Cash and cash equivalents

In thousand Armenian drams	31 December 2018	31 December 2017
Cash on hand	7,792,909	7,690,879
Correspondent accounts with CBA	17,126,388	20,879,961
Nostro accounts with other banks	7,165,495	3,273,114
	32,084,792	31,843,954
Less loss allowance	(35,785)	-
Total cash and cash equivalents	32,049,007	31,843,954

As of 31 December 2018 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 17,126,388 thousand (2017: AMD 14,638,272 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 2018 the accounts in amount of AMD 5,543,004 thousand (77%) (2017: AMD 3,202,814 thousand (98%)) were due from two commercial banks.

An analysis of changes in the ECLs on cash and cash equivalents is as follows:

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Cash and cash equivalents		
ECL allowance as at 1 January 2018	6,567	-
Net remeasurement of loss allowance	29,218	-
Balance as at 31 December	35,785	-

Non-cash transactions performed by the Bank during 2018 are represented by:

- repayment of AMD 1,151,576 thousand loan by repossessing the collateral (2017: AMD 1,892,940 thousand).

17 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

Whether aggregate contractual or notional amount of derivative financial instruments are favourable or not, the 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.

In thousand Armenian drams	31 December 2018			31 December 2017		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Foreign exchange contracts						
Foreign exchange swap	2,673,068	-	12,761	2,770,514	3,086	9,993
Foreign exchange forward	612,506	785	52	-	-	-
Total derivative financial instruments		785	12,813		3,086	9,993

18 Amounts due from financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Deposited funds with the CBA	211,500	210,000
Deposited funds with other banks	736,682	736,930
Loans to banks	11,775,880	-
Loans to financial institutions	330,498	48,620
	13,054,560	995,550
Less loss allowance	(71,113)	-
Total amounts due from other financial institutions	12,983,447	995,550

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

Deposited funds with other banks include guaranteed deposits for settlements via VISA and Master Card payment systems transactions.

As of 31 December 2018 the average effective interest rates on loans to banks were 4.10% for loans in USD, 1.61% for loans in EUR (no loans to banks in 2017).

An analysis of changes in the ECLs on amount due from financial institutions as follows:

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Amount due from other financial institutions		
ECL allowance as at 1 January 2018	3,575	-
Net remeasurement of loss allowance	67,538	-
Balance as at 31 December	71,113	-

19 Loans and advances to customers

In thousand Armenian drams	31 December 2018			31 December 2017		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	11,544,432	(771,932)	10,772,500	11,871,486	(118,715)	11,752,771
Consumer	66,101,888	(4,991,352)	61,110,536	55,631,593	(2,120,200)	53,511,393
Commercial lending						
Industry	11,087,751	(1,529,265)	9,558,486	8,591,135	(317,901)	8,273,234
Agriculture	1,870,427	(151,963)	1,718,464	547,754	(5,478)	542,276
Construction	12,155,295	(1,049,804)	11,105,491	9,426,511	(281,743)	9,144,768
Transportation	9,450,156	(488,988)	8,961,168	5,851,808	(227,146)	5,624,662
Trade	17,393,351	(2,796,481)	14,596,870	24,403,124	(1,426,243)	22,976,881
Services	11,999,332	(1,612,508)	10,386,824	8,073,613	(697,551)	7,376,062
Other	6,751,989	(683,246)	6,068,743	16,487,752	(561,907)	15,925,845
Total	148,354,621	(14,075,539)	134,279,082	140,884,776	(5,756,884)	135,127,892

As of 31 December 2018 the average effective interest rates on loans and advances to corporate customers were 13.76% for loans in AMD, 11.86% for loans in USD, 10.59% for loans in EUR, 12.71% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 22.46% for loans in AMD, 13.61% for loans in USD, 8.85% for loans in EUR, 9.38% for loans in RUB (2017: on loans and advances to corporate customers were 13.49% for loans in AMD, 12.32% for loans in USD, 12.30% for loans in RUB, 12.64% for loans in EUR. 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, no loans in RUB).

As of 31 December 2018, the Bank had a concentration of loans represented by AMD 30,790,668 thousand due from the 10 largest third party entities and parties related with them (21% of gross loan portfolio) (2017: AMD 34,868,710 thousand due from the 13 largest third party entities and parties related with them (25% of gross loan portfolio). An allowance of AMD 1,239,834 thousand (2017: AMD 560,441 thousand) was made against these loans.

An analysis of changes in ECL allowances in relation to mortgage and consumer lending and commercial lending are as follows.

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as at 1 January 2018	821,259	26,615	2,075,061	2,922,935
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	33,081	(1,537)	(31,544)	-
Transfer to Lifetime ECL not credit-impaired	(18,402)	28,720	(10,318)	-
Transfer to Lifetime ECL credit-impaired	(29,727)	(4,519)	34,246	-
Net remeasurement of loss allowance	257,534	199,110	3,313,362	3,770,006
Recoveries	-	-	2,878,992	2,878,992
Amounts written off during the year	-	-	(3,808,649)	(3,808,649)
Balance at 31 December	1,063,745	248,389	4,451,150	5,763,284

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as at 1 January 2018	87,662	-	6,584,925	6,672,587
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	12,201	-	(12,201)	-
Transfer to Lifetime ECL not credit-impaired	(29,066)	32,353	(3,287)	-
Transfer to Lifetime ECL credit-impaired	(341)	-	341	-
Net remeasurement of loss allowance	44,142	(22,279)	1,381,934	1,403,797
Recoveries	-	-	2,335,772	2,335,772
Amounts written off during the year	-	-	(2,099,901)	(2,099,901)
Balance at 31 December	114,598	10,074	8,187,583	8,312,255

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in note 35.1.2.

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to 31 December 2017 is, as follows

In thousand Armenian drams	2017		
	Mortgage and consumer lending	Commercial lending	Total
At 1 January 2017	1,758,422	4,185,368	5,943,790
Charge for the year	5,131,304	809,265	5,940,569
Amounts written off	(5,646,462)	(3,122,951)	(8,769,413)
Recoveries	995,651	1,646,287	2,641,938
At 31 December 2017	2,238,915	3,517,969	5,756,884
Individual impairment	185,451	2,723,213	2,908,664
Collective impairment	2,053,464	794,756	2,848,220
	2,238,915	3,517,969	5,756,884
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,888,572	9,522,835	11,411,407

At 31 December 2018 and 2017 the estimated fair value of loans and advances to customers approximates it carrying value. See note 32.

Maturity analysis of loans and advances to customers are disclosed in note 34.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in note 36. The information on related party balances is disclosed in note 31.

20 Investment securities

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at amortised cost		
RA state bonds	10,464,958	-
Corporate bonds	2,465,868	
	12,930,826	-
Less loss allowance	(108,038)	-
Total investment securities at amortised cost	12,822,788	-

An analysis of changes in the ECLs on investment securities measured at amortised cost is as follows:

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	13,546	-
Net remeasurement of loss allowance	94,492	-
Balance as at 31 December	108,038	-

In thousand Armenian drams	31 December 2018	31 December 2017
Investment securities measured at FVOCI		
Debt instruments		
RA state bonds	2,012,227	N/A
Corporate bonds	1,415,356	N/A
Equity instruments		
Equity investments	389,497	N/A
Available-for-sale investment securities		
Equity instruments of Armenian companies	N/A	21,460
RA state bonds	N/A	12,168,958
Corporate bonds	N/A	1,401,613
Total investment securities measured at FVOCI (2017 Available-for-sale)	3,817,080	13,592,031
Debt investment securities measured at FVOCI (2017 available-for-sale) pledged under repurchase agreements	-	7,877,164
Total investment securities measured at FVOCI (2017 available-for-sale)	3,817,080	21,469,195

An analysis of changes in the ECLs on debt investment securities measured at FVOCI, including pledged under repurchase agreements as follow:

In thousand Armenian drams	2018	2017
	12-month ECL	Total
ECL allowance as at 1 January 2018	1,938	-
Net remeasurement of loss allowance	24,176	-
Balance at 31 December	26,114	-

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI (2017: available-for-sale) is their fair value.

All debt securities have fixed coupons.

Investment securities measured at FVOCI (2017: available-for-sale) by effective interest rates and maturity dates comprise:

In thousand Armenian drams	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
RA state bonds	10-11%	2020-2028	5.72-14.94%	2018-2028
Corporate bonds	5.95-10%	2019-2022	-	-

Investment securities measured at amortised cost (2017: Held-to-maturity) upon profitability and maturity terms:

In thousand Armenian drams	31 December 2018		31 December 2017	
	%	Maturity	%	Maturity
RA state bonds	6-12%	2020-2025	-	-
Corporate bonds	5-9.9%	2021-2022	-	-

As of 31 December 2017 debt securities measured at AFS 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 (see note 24).

21 Property and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
Cost/ Revalued amount						
At 1 January 2017	5,608,759	141,879	1,158,423	182,053	3,209,620	10,300,734
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	(70,665)	-	-	-	-	(70,665)
At 31 December 2017	5,821,754	247,240	1,208,626	185,501	3,677,344	11,140,465
Additions	15,019	3,500	172,456	26,974	537,351	755,300
Disposals	(31,300)	(3,938)	(410,351)	-	(39,489)	(485,078)
Revaluation	-	-	32,831	-	-	32,831
At 31 December 2018	5,805,473	246,802	1,003,562	212,475	4,175,206	11,443,518
Accumulated depreciation						
At 1 January 2017	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
Charge for the year	72,604	4,308	88,420	17,425	214,597	397,354
Disposals	(149)	(905)	(410,216)	-	(38,673)	(449,943)
At 31 December 2018	81,680	48,812	586,842	84,897	2,092,235	2,894,466
Carrying amount						
At 31 December 2017	5,812,529	201,831	299,988	118,029	1,761,033	8,193,410
At 31 December 2018	5,723,793	197,990	416,720	127,578	2,082,971	8,549,052

Revaluation of assets

The land and buildings and computer and communication technologies of the Bank are represented at the revalued amount. The land and buildings owned by the Bank were revaluated by an independent appraiser in December 2017 using the comparative methods resulting in a net increase in amount of AMD 255,757 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 5,486,552 thousand as at 31 December 2018 (2017: AMD 5,555,765 thousand).

The computer and communication technologies owned by the Bank were revaluated in December 2018 using the comparative methods resulting in a net increase in amount of AMD 32,831 thousand (2017: nill).

The carrying value of the revalued computer and communication technologies was nill as at 31 December 2017.

Fully depreciated items

As at 31 December 2018 fixed assets included fully depreciated assets in cost of AMD 1,571,105 thousand (2017: AMD 1,819,313 thousand).

Fixed assets in the phase of installation

As at 31 December 2018 fixed assets included assets in the phase of installation amounting AMD 1,471,791 thousand, containing buildings in amount of AMD 19,300 thousand (2017: AMD 1,035,877 thousand, containing buildings in amount of AMD 50,600 thousand)

Restrictions on title of fixed assets

As at 31 December 2018, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2017: either).

Contractual commitments

As at 31 December 2018, the Bank had no contractual commitment in respect of investments in fixed assets (2017: nil).

22 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
Cost				
At 1 January 2017	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
Additions	30,044	277,415	-	307,459
At 31 December 2018	974,811	1,209,437	101,021	2,285,269
Accumulated depreciation				
At 1 January 2017	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
Amortisation charge	56,713	39,278	2,397	98,388
At 31 December 2018	340,502	248,758	66,664	655,924
Carrying amount				
At 31 December 2017	660,978	722,542	36,754	1,420,274
At 31 December 2018	634,309	960,679	34,357	1,629,345

Contractual commitments

As at 31 December 2018, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2018, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2018, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 462,732 thousand (2017: AMD 489,449 thousand).

As at 31 December 2018 intangible assets included fully amortized assets in cost of AMD 12,870 thousand (2017: nill).

23 Other assets

In thousand Armenian drams	31 December 2018	31 December 2017
Accounts receivable	147,712	209,658
Less loss allowance	(523)	(12,707)
Total other financial assets	147,189	196,951
Prepayments and other debtors	453,302	628,009
Repossessed assets	2,210,359	1,876,321
Other prepaid taxes	3,399	3,403
Materials	130,905	148,063
Precious metals	68,650	63,194
Other assets	655,298	638,734
Total non-financial assets	3,521,913	3,357,724
Total other assets	3,669,102	3,554,675

An analysis of changes in the ECLs on other financial assets is as follow:

In thousand Armenian drams	Total
At 1 January 2017	10,522
Net charge for the year	33,924
Write off	(31,739)
At 31 December 2017	12,707
Correcting opening balance effect of IFRS 9 provision	2,148
ECL allowance as at 1 January 2018	14,855
Net remeasurement of loss allowance	75,173
Write off	(89,505)
At 31 December 2018	523

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

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

24 Amounts due to financial institutions

In thousand Armenian drams	31 December 2018	31 December 2017
Correspondent accounts of other banks	2,883,102	1,751,864
Current accounts of other financial institutions	54,699	93,025
Loans from financial institutions	4,721,126	6,606,372
Loans under repurchase agreements	-	7,773,155
Deposits from financial institutions	1,381,024	1,026,110
Total amounts due to financial institutions	9,039,951	17,250,526

As of 31 December 2018 the average effective interest rates on amounts due to financial institutions was 7.13% for borrowings in AMD (2017: 8.00%) and 6.34% for borrowings in USD (2017: 3.22%).

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 (2017: nil).

25 Amounts due to customers

In thousand Armenian drams	31 December 2018	31 December 2017
Corporate customers		
Current/Settlement accounts	31,673,397	7,011,387
Time deposits	20,438,842	18,171,418
	52,112,239	25,182,805
Retail customers		
Current/Demand accounts	11,522,228	10,943,532
Time deposits	87,817,537	92,301,586
	99,339,765	103,245,118
Total amounts due to customers	151,452,004	128,427,923

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2018 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 12,636,107 thousand (2017: AMD 13,978,166 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2018 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 25,801,730 thousand (2017: AMD 23,009,790 thousand) or 17% of total retail and corporate customer accounts (2017: 18%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: nil).

As of 31 December 2018 the average effective interest rates on amounts due to corporate customers were 11.44% for liabilities in AMD, 4.96% for liabilities in USD, 9.08% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 8.84% for liabilities in AMD, 4.57% for liabilities in USD, 3.22% for liabilities in EUR, 6.74% for liabilities in RUB (2017: for corporate customers 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).

26 Borrowings

In thousand Armenian drams	31 December 2018	31 December 2017
Subordinated debt provided by non-financial organizations	1,451,727	1,452,777
Loans from RA Government	4,086,709	5,199,665
Other borrowing	1,098,452	8,092,122
Total borrowings	6,636,888	14,744,564

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 2018 the average effective interest rate on amounts due to Government of the RA was 6.01% for loans in AMD, 4.10% for loans in USD (2017: the average effective interest rate was 6.19% 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 (2017: nil).

As of 31 December 2018 average weighted interest rate of borrowings was 12.55% for loans in USD, 12.57% for loans in EUR (2017: 11.59% for loans in USD).

27 Debt securities issued

In thousand Armenian drams	31 December 2018	31 December 2017
Bonds issued	8,576,459	5,139,360
Total debt securities issued	8,576,459	5,139,360

As of 31 December 2018, the Bank had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
18.12.2017	USD	100	50,000	5.75	11.09.2020	5,000,000
03.04.2018	USD	100	50,000	5.5	13.05.2021	5,000,000
20.03.2018	AMD	10,000	25,000	10	13.02.2020	250,000,000
20.12.2018	USD	100	50,000	5.5	22.10.2021	5,000,000
23.11.2018	AMD	10,000	50,000	10	22.10.2020	500,000,000
17.12.2018	AMD	10,000	50,000	10	12.11.2020	500,000,000

The bonds of the Bank are listed at "NASDAQ OMX Armenia" stock exchange.

The Bank has not repurchased any of its own debt during the year (2017: either).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2017: nil).

28 Other liabilities

In thousand Armenian drams	31 December 2018	31 December 2017
Accounts payables	166,026	115,730
Dividends payable	222,263	-
Due to personnel	251,120	284,645
Total other financial liabilities	639,409	400,375
Tax payable, other than income tax	183,166	204,659
Revenues of future periods	44,411	50,996
ECL for guarantee and loan commitments*	79,063	-
Total other non-financial liabilities	306,640	255,655
Total other liabilities	946,049	656,030

*Provisions have been made in respect of costs arising from financial guarantees and loan commitments. An analysis of changes in the ECLs on loan commitments and financial guarantees see note 30.

29 Equity

As at 31 December 2018 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 2018 and 2017 may be specified as follow:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Uniholding GG Ltd	17,981,523	88
Sfikaro Investments Ltd	1,350,900	6
Arolova Enterprises Ltd	776,701	4
Other	380,529	2
	20,489,653	100

As at 31 December 2018 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. 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 2018 the dividends for preference shareholders recognized in the financial statements amounted to AMD 382,313 thousand (2017: AMD 160,051 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 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 and financial guarantee

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	31 December 2018	31 December 2017
Undrawn loan commitments	5,218,917	7,307,417
Guarantees	1,505,185	702,633
Total commitments and contingent liabilities	6,724,102	8,010,050

An analysis of changes in the ECLs on financial guarantee and loan commitments as follow:

In thousand Armenian drams	31 December 2018	31 December 2017
	12-month ECL	Total
Financial guarantees and loan commitments		
ECL allowance as at 1 January 2018	18,170	-
Net remeasurement of loss allowance	60,893	-
Balance as at 31 December	79,063	-

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	31 December 2018	31 December 2017
Not later than 1 year	397,700	459,302
Later than 1 year and not later than 5 years	634,725	806,463
Later than 5 years	20,007	47,065
Total operating lease commitments	1,052,432	1,312,830

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 21 and 22.

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	2018		2017	
	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	3,454,893	382,284	3,650,987	197,982
Loans issued during the year	6,181,129	271,814	26,891	279,456
Loan repayments during the year	(4,025,819)	(189,497)	(222,985)	(95,154)
Loans outstanding at 31 December gross	5,610,203	464,601	3,454,893	382,284
Less: allowance for loan impairment	(5,707)	(1,461)	(34,549)	(3,823)
Loans outstanding at December 31	5,604,496	463,140	3,420,344	378,461
Amounts due from financial institutions				
At January 1	277,177	-	356,283	-
Increase	58,564,718	-	43,901,871	-
Decrease	(56,363,224)	-	(43,980,977)	-
At December 31	2,478,671	-	277,177	-
Less: allowance impairment	(22,275)	-	-	-
Amount outstanding at December 31	2,456,396	-	277,177	-
Amounts due to financial institutions				
At January 1	1,876,288	-	440,151	-
Increase	75,887,623	-	17,108,731	-
Decrease	(74,427,486)	-	(15,672,594)	-
At December 31	3,336,425	-	1,876,288	-
Amounts due to customers				
At January 1	236,742	139,616	449,792	241,194
Deposits received during the year	11,493,662	2,879,958	7,762,798	925,196
Deposits repaid during the year	(8,439,784)	(2,746,228)	(7,975,848)	(1,026,744)
At December 31	3,290,620	273,346	236,742	139,616

In thousand Armenian drams	2018		2017	
	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
Borrowings				
At January 1	9,544,899	-	10,134,574	-
Received during the year	16,638,641	-	31,577,312	-
Repaid during the year	(23,633,361)	-	(32,166,987)	-
Borrowings at December 31	2,550,179	-	9,544,899	-
Debt securities issued	-	71,531	-	56,642
Interest and similar income	584,812	54,635	392,646	37,482
Interest and similar expenses	(705,055)	(9,606)	(1,229,827)	(10,004)
Charge/(reversal) of credit losses	(6,567)	(2,362)	(1,961)	1,843
Insurance payments	-	-	(33,639)	-

The loans issued to parties related with the Bank are repayable in 1-20 years and have interest rate 7.5%-24%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2018	2017
Salaries and bonuses	720,191	750,989
Total key management compensation	720,191	750,989

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	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	32,049,007	-	32,049,007	32,049,007
Amounts due from financial institutions	-	12,983,447	-	12,983,447	12,983,447
Loans and advances to customers	-	133,847,107	-	133,847,107	134,279,082
Investments securities measured at amortised cost	-	12,824,151	-	12,824,151	12,822,788
Other financial assets	-	147,189	-	147,189	147,189
Financial liabilities					
Amounts due to financial institutions	-	9,174,836	-	9,174,836	9,039,951
Amounts due to customers	-	151,668,504	-	151,668,504	151,452,004
Borrowings	-	7,117,876	-	7,117,876	6,636,888
Issued debt securities	-	8,413,974	-	8,413,974	8,576,459
Other financial liabilities	-	639,409	-	639,409	639,409

In thousand Armenian drams	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
Other financial assets	-	196,951	-	196,951	196,951
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

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 (2017: 5% 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.

Investment securities measured at amortised cost (2017 held to maturity)

Market values have been used to determine the fair value of investment securities measured at amortised cost traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

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				**31 December 2018**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Investments securities at FVOCI	-	3,817,080	-	3,817,080
Derivative financial assets	-	785	-	785
Total	-	3,817,865	-	3,817,865
Financial liabilities				
Derivative financial liabilities	-	12,813	-	12,813
Total	-	12,813	-	12,813
Net fair value	-	3,805,052	-	3,805,052

In thousand Armenian drams				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

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

Unquoted debt securities

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

Unquoted equity investments

For determining the fair value of unquoted equity instruments the Bank uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Bank uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable. In 2017 unquoted equity instruments were measured at cost.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs. Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency forward contracts.

32.3 Fair value measurement of non-financial assets

In thousand Armenian drams				31 December 2018
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property plant and equipment				
Land and buildings	-	-	5,805,473	5,805,473
Computer and communication technologies	-	-	1,003,562	1,003,562
Total non-financial assets	-	-	6,809,035	6,809,035
Net fair value	-	-	6,809,035	6,809,035

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

Fair value measurements in Level 3

The Bank's non-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	2018		
	Property plant equipment	Computer and communi-cation technologies	Total
Non-financial assets			
Balance as at 1 January 2018	5,821,754	1,208,626	7,030,380
Gain recognised in other comprehensive income	-	32,831	32,831
Additions	15,019	172,456	187,475
Disposal	(31,300)	(410,351)	(441,651)
Balance as at 31 December, 2018	5,805,473	1,003,562	6,809,035
Net fair value	5,805,473	1,003,562	6,809,035

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 property and equipment	(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

In thousand Armenian drams	2017	
	Property plant equipment	**Total**
Net fair value	5,821,754	5,821,754

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				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 24)	(7,773,155)	-	(7,773,155)	7,877,164	-	104,009

34 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See note 36.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								**31 December 2018**
	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	32,049,007	-	-	32,049,007	-	-	-	32,049,007
Amounts due from financial institutions	4,328,038	963,341	7,446,597	12,737,976	245,471	-	245,471	12,983,447
Derivative financial assets	785	-	-	785	-	-	-	785
Loans and advances to customers	30,217,908	5,895,117	25,158,009	61,271,034	42,533,580	30,474,468	73,008,048	134,279,082
Investment securities								
- Investment securities at fair value through other comprehensive income	389,498	15,819	68,713	474,030	2,256,732	1,086,318	3,343,050	3,817,080
- Investments securities at amortised cost	-	166,274	67,916	234,190	4,859,870	7,728,728	12,588,598	12,822,788
Other financial assets	147,189	-	-	147,189	-	-	-	147,189
	67,132,425	7,040,551	32,741,235	106,914,211	49,895,653	39,289,514	89,185,167	196,099,378
Liabilities								
Amounts due to financial institutions	4,089,138	251,945	980,298	5,321,381	2,875,814	842,756	3,718,570	9,039,951
Amounts due to customers	58,971,276	19,578,352	64,819,609	143,369,237	8,028,786	53,981	8,082,767	151,452,004
Derivative financial liabilities	12,813	-	-	12,813	-	-	-	12,813
Borrowings	107,621	-	1,101,284	1,208,905	1,397,167	4,030,816	5,427,983	6,636,888
Debt securities issued	-	-	-	-	8,576,459	-	8,576,459	8,576,459
Other financial liabilities	639,409	-	-	639,409	-	-	-	639,409
	63,820,257	19,830,297	66,901,191	150,551,745	20,878,226	4,927,553	25,805,779	176,357,524
Net position	3,312,168	(12,789,746)	(34,159,956)	(43,637,534)	29,017,427	34,361,961	63,379,388	19,741,854
Accumulated gap	3,312,168	(9,477,578)	(43,637,534)		(14,620,107)	19,741,854		

In thousand Armenian drams	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
								31 December 2017
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
Other financial assets	196,951	-	-	196,951	-	-	-	196,951
	63,473,755	16,833,869	30,988,526	111,296,150	44,703,700	33,636,778	78,340,478	189,636,628
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	16,236,670	(11,899,737)	(37,650,526)	(33,313,593)	34,368,532	22,608,948	56,977,480	23,663,887
Accumulated gap	16,236,670	4,336,933	(33,313,593)		1,054,939	23,663,887		

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 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

In thousand Armenian drams				31 December 2018	31 December 2017
Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total	Total
Cash and cash equivalents					
High	7,792,909	-	-	7,792,909	7,690,879
Standard	24,291,883	-	-	24,291,883	24,153,075
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
Gross carrying amount	32,084,792	-	-	32,084,792	31,843,954
Loss allowance	(35,785)	-	-	(35,785)	-
Net carrying amount	32,049,007	-	-	32,049,007	31,843,954
Amounts due from financial institutions					
High	-	-	-	-	-
Standard	13,054,560	-	-	13,054,560	995,550
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
Gross carrying amount	13,054,560	-	-	13,054,560	995,550
Loss allowance	(71,113)	-	-	(71,113)	-
Net carrying amount	12,983,447	-	-	12,983,447	995,550
Loans and advances to mortgage and consumer customers					
High grade	61,866,169	-	-	61,866,169	58,182,294
Standard grade	4,051,372	1,174,471	-	5,225,843	2,042,017
Substandard grade	-	972,639	-	972,639	322,905
Non-performing grade	-	-	9,581,669	9,581,669	6,955,863
Gross carrying amount	65,917,541	2,147,110	9,581,669	77,646,320	67,503,079
Loss allowance	(1,063,745)	(248,389)	(4,451,150)	(5,763,284)	(2,238,915)
Net carrying amount	64,853,796	1,898,721	5,130,519	71,883,036	65,264,164
Loans and advances to commercial customers					
High grade	35,566,201	-	-	35,566,201	37,746,604
Standard grade	4,067,068	405,463	-	4,472,531	9,087,292
Substandard grade	1,227,708	151,491	-	1,379,199	65,264
Non-performing grade	-	-	29,290,370	29,290,370	26,482,537
Gross carrying amount	40,860,977	556,954	29,290,370	70,708,301	73,381,697
Loss allowance	(114,598)	(10,074)	(8,187,583)	(8,312,255)	(3,517,969)
Net carrying amount	40,746,379	546,880	21,102,787	62,396,046	69,863,728

Debt investment securities at amortised cost (2017: held-to-maturity)					
High	-	-	-	-	-
Standard	12,930,826	-	-	12,930,826	-
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
Gross carrying amount	12,930,826	-	-	12,930,826	-
Loss allowance	(108,038)	-	-	(108,038)	-
Net carrying amount	12,822,788	-	-	12,822,788	-
Debt investment securities at FVOCI (2017: available-for-sale)					
High	-	-	-	-	-
Standard *	3,817,080	-	-	3,817,080	13,592,031
Low	-	-	-	-	-
Non-performing	-	-	-	-	-
	3,817,080	-	-	3,817,080	13,592,031
Other financial assets					
High grade	-	-	-	-	-
Standard grade	147,712	-	-	147,712	209,658
Substandard grade	-	-	-	-	-
Non-performing grade	-	-	-	-	-
Gross carrying amount	147,712	-	-	147,712	209,658
Loss allowance	(523)	-	-	(523)	(12,707)
Net carrying amount	147,189	-	-	147,189	196,951
Loan commitments and financial guarantee					
High grade	6,724,102	-	-	6,724,102	8,010,050
Standard grade	-	-	-	-	-
Substandard grade	-	-	-	-	-
Non-performing grade	-	-	-	-	-
	6,724,102	-	-	6,724,102	8,010,050
Loss allowance	(79,063)	-	-	(79,063)	-

Credit exposures arising from derivative transactions see note 17.

35.1.2 Impairment assessment

Policy applicable from 1 January 2018

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, The Bank assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The bank considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Bank use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans and advances to customers

The criteria for Loans and advances to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days' pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Change notches external credit score/rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and the Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Bank has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was at least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and the Bank does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

If none of the indicators that are used by the Bank to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Collective or individual assessment

The Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the bank groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Bank considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Bank defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Bank defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 4.4.4.

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Bank's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Bank determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Bank uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Bank nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth
- Official exchange rate
- Inflation
- Real estate prices (average price in Yerevan)

Impairment assessment policy applicable before 1 January 2018

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The 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	**2017**
Loans and advances to customers	
Industry	1%
Agriculture	1%
Construction	1%
Transportation	1.9%
Trade	1.5%
Service	1%
Consumer	3.6%
Mortgage	1%
Other	1%

As of 31 December 2017 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	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

35.1.3 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	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	24,956,691	3,358,501	3,733,815	32,049,007
Amounts due from financial institutions	12,319,327	664,120	-	12,983,447
Derivative financial assets	-	-	785	785
Loans and advances to customers	122,217,949	2,481,767	9,579,366	134,279,082
Investment securities				
- Investment securities at fair value through other comprehensive income	3,817,080	-	-	3,817,080
- Investment securities at amortised cost	12,822,788	-	-	12,822,788
Other financial assets	147,189	-	-	147,189
As of 31 December 2018	176,281,024	6,504,388	13,313,966	196,099,378
As of 31 December 2017	178,215,710	6,175,807	5,245,111	189,636,628

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

Industry sectors

The Bank’s main credit exposure as categorized by the industry sectors of the counterparties as of 31 December 2018 are concentrated in financial sector except for the loans. For the loan industry sector please see note 19.

35.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, movable properties, equipment, inventory and trade receivables and, in special circumstances, government guarantees
- For consumer lending residential properties and other collateral.
- For mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Allowance for ECL on loans at the total amount of 30,461,699 thousand has not been recognized because of collaterals.

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	31 December 2018	31 December 2017
Loans collateralized by real estate	77,735,979	70,670,551
Loans collateralized by movable property	8,603,791	6,386,071
Loans collateralized by goods in circulation	288,340	593,958
Loans collateralized by guarantees	4,076,125	5,616,929
Loans collateralized by cash	5,928,318	8,224,073
Loans collateralized by household appliances	21,519,423	19,080,000
Unsecured loans	30,202,645	30,313,194
Total loans and advances to customers (gross)	148,354,621	140,884,776

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 credit-impaired.

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 2018. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2018 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	31 December 2018						
			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	-	-	-	11,973	61,110	73,083
USD	+1	-	-	-	31,343	-	31,343
AMD	-1	-	-	-	(12,179)	(66,103)	(78,282)
USD	-1	-	-	-	(32,366)	-	(32,366)

In thousand Armenian drams	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

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 2018 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	31 December 2018		31 December 2017	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	(50,878,720)	+5	(179,387)
EUR	+5	(1,424,050)	+5	53,240
USD	(5)	50,878,720	(5)	179,387
EUR	(5)	1,424,050	(5)	(53,240)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and cash equivalents	18,727,353	12,780,032	541,622	32,049,007
Amounts due from financial institutions	261,451	12,721,996	-	12,983,447
Loans and advances to customers	72,864,398	58,424,199	2,990,485	134,279,082
Investment securities				
- Investment securities at fair value through other comprehensive income	2,086,866	1,730,214	-	3,817,080
- Investments securities at amortised cost	3,654,328	9,168,460	-	12,822,788
Other financial assets	147,189	-	-	147,189
Total	97,741,585	94,824,901	3,532,107	196,098,593
Liabilities				
Amounts due to financial institutions	3,565,370	5,474,564	17	9,039,951
Amounts due to customers	59,325,536	88,358,523	3,767,945	151,452,004
Borrowings	4,076,827	2,560,061	-	6,636,888
Debt securities issued	1,269,699	7,306,760	-	8,576,459
Other financial liabilities	638,446	963	-	639,409
Total	68,875,878	103,700,871	3,767,962	176,344,711
Total effect of derivative financial instruments	(12,761)	15,255	(14,522)	(12,028)
Net position as of 31 December 2018	28,852,946	(8,860,715)	(250,377)	19,741,854
Commitments and contingent liabilities as of 31 December 2018	3,243,348	3,480,754	-	6,724,102
Total financial assets	100,990,865	84,579,820	4,062,857	189,633,542
Total financial liabilities	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 of 31 December 2017	24,466,430	(2,494,852)	1,692,309	23,663,887
Commitments and contingent liabilities As of 31 December 2017	2,041,709	5,968,341	-	8,010,050

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 16. 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:

	Unaudited	
	31 December 2018, %	31 December 2017, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	26.87	25.27
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	107.07	272.67

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. See 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.

In thousand Armenian drams	31 December 2018					
	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
Non-derivative financial liabilities						
Amounts due to financial institutions	4,091,079	254,135	1,026,724	3,740,023	1,249,092	10,361,053
Amounts due to customers	59,010,872	19,781,588	67,504,794	9,577,501	119,856	155,994,611
Borrowings	107,806	-	1,133,599	2,147,945	6,204,338	9,593,688
Debt securities issued	-	132,535	397,605	9,255,412	-	9,785,552
Other financial liabilities	639,409	-	-	-	-	639,409
Total undiscounted non-derivative financial liabilities	63,849,166	20,168,258	70,062,722	24,720,881	7,573,286	186,374,313

In thousand Armenian drams						31 December 2018
	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
Derivative financial liabilities						
Foreign exchange forward contracts						
Inflow	613,240	-	-	-	-	613,240
Outflow	(612,455)	-	-	-	-	(612,455)
Foreign exchange swap contracts						
Inflow	2,660,308	-	-	-	-	2,660,308
Outflow	(2,673,121)	-	-	-	-	(2,673,121)
Commitments and contingent liabilities	149,412	626,172	1,167,511	2,629,007	2,152,000	6,724,102

In thousand Armenian drams						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	13,843,955	385,089	1,618,942	48,741	2,145,763	18,042,490
Amounts due to	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	77,335,624
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	558,822	476,502	1,765,339	5,209,387	-	8,010,050

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 2018 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.

35.4 Operational risk

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

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

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

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

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

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					**31 December 2018**
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Dividends payable**	**Total**
As of 1 January 2018	17,250,526	14,744,564	5,139,360	-	37,134,450
Cash-flows	*(9,303,169)*	*(8,066,728)*	*3,446,491*	*(160,050)*	*(14,083,456)*
Repayments	(673,322,533)	(25,863,834)	(5,493,738)	(160,050)	(704,840,155)
Proceeds	664,019,364	17,797,106	8,940,229	-	690,756,699
Non-cash	*1,092,594*	*(40,948)*	*(9,392)*	*382,313*	*1,424,567*
Foreign exchange	318	(60,118)	(46,960)	-	(106,760)
Accrued interest	1,092,276	19,170	37,568	-	1,149,014
Accrual of dividends	-	-	-	382,313	382,313
As of 31 December 2018	9,039,951	6,636,888	8,576,459	222,263	24,475,561

In thousand Armenian drams	31 December 2017				
	Amounts due to financial institutions	**Borrowings**	**Debt securities issued**	**Dividends payable**	**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 2018 and 2017 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.

	Unaudited	
In thousand Armenian drams	**31 December 2018**	**31 December 2017**
Tier 1 capital	27,813,124	28,463,986
Tier 2 capital	2,771,843	2,820,403
Total regulatory capital	30,584,967	31,284,389
Risk-weighted assets	210,205,959	183,593,833
Capital adequacy ratio	14.55%	17.04%

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 Segment reporting

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.

Interim report on the financial result
31/03/2019
" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name	Notes	Reporting period 01.01.19_31.03.19	Previous period 01.01.18_31.03.18
Interest and similar income	3	4,775,254	5,491,431
Interest and similar expenses	3	(2,285,342)	(2,546,745)
Net interest and other income		**2,489,912**	**2,944,686**
Commission income	4	632,827	281,759
Commission expenses	4	(138,949)	(90,159)
Net commission income		**493,878**	**191,600**
Income from dividents			
Net trading income	5	300,162	144,280
Other Operational income	6	160,079	256,786
Operational income		**3,444,031**	**3,537,352**
Expenses related to loan loss provisioning	7	(1,173,659)	(1,299,551)
Total administrative expenses	8	(1,071,002)	(888,778)
Other operational expenses	9	(1,019,593)	(808,421)
Net gain/loss from investments	10		
Gain (loss) before taxation		**179,777**	**540,602**
Profit tax expenses	11	(36,106)	(112,779)
Gain (loss) after taxation		**143,671**	**427,823**
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-19

" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Reporting period 01.01.19_31.03.19	Previous period 01.01.18_31.03.18
Other aggregate financial result		
Rate exchange from the converting of foreign transactions		
Revaluation of financial assets	(80,735)	(40,006)
Cash flow hedging		
Income from the revaluation on the current assets	(28,773)	(9,203)
Income tax from other aggregate income	21,902	9,842
Other aggregate result after taxation	(87,606)	(39,367)
Aggregated financial result	56,065	388,456
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-19

" 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 31.03.2019	At the end of preceding financial year (checked) 31.12.2018
1	**Assets**			
1.1	Cash and balances with CBA	13	34,770,669	32,049,007
1.3	Amounts due from banks and other financial	14	12,622,585	12,983,447
1.2	Derivative financial assets			785
1.5	Loans and borrowings to customers	16	132,628,012	134,279,082
1.6	Financial assets available for commercial purposes	17	3,758,656	3,817,080
1.7	Investments kept upon repayment period	18	13,801,058	12,822,788
1.9	Right to use leased assets		824,448	
1.10	Fixed and intangible assets	20	10,201,463	10,178,397
1.11	Deferred tax assets	11		
1.12	Prepayment on profit tax	21.1	4,768	
1.13	Other assets	21	3,811,896	3,669,102
	Total assets		212,423,555	209,799,688
2	**Liabilities**			
2.1	Amounts due to the banks and other financial institutions	22	14,646,114	9,039,951
2.2	Derivative financial liabilities		10,645	12,813
2.3	Amounts due to customers	23	147,361,466	151,452,004
2.4	Subboridnated loan	23.1	5,691,509	6,636,888
2.5	Liabilities on leased assets		831,300	
2.6	Securities issued by Bank	24	8,683,561	8,576,459
2.7	Current tax liabilities		109,745	60,495
2.8	Deferred tax liabilities		513,439	526,585
2.9	Reserves		74,635	79,061
2.10	Other liabilities	27	1,898,439	866,988
	Total Liabilities		179,820,853	177,251,244
3	Equity			
3.1	Share capital	28	20,489,653	20,489,652
3.2	Emission income		9,605,638	9,605,639
3.3	Reserves		1,600,211	1,687,816
3.3.1	General reserve		448,299	448,298
3.3.2	Re-assessment reserve		1,151,912	1,239,518
3.4	Retained gain (loss)		907,200	765,337
3.5	Other items of equity			
	Total equity		32,602,702	32,548,444
	Total liabilities and equity		212,423,555	209,799,688

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the changes in Private Equity
31-Mar-19
" 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 foreign operations	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 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**
1.1. General result of accounting policy changes and adjustment of considerable mistakes										(3,414,985)				(3,414,985)
2. Recalculated balance	20,489,653	-	20,489,653	9,605,638	426,482	-	24,275	-	1,469,083	157,727	-	-	-	32,172,858
3. Operations with the shareholders, via shares, including														-
3.1. Investments in the share capital and other increase of the share capital														-
3.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks														-
4. Comprehensive income														
5. Dividents														-
6. Increase/ decrease of equity item, including														-
6.1. Increase/ decrease of derivative instruments classified as equity instruments														-
7. Internal movements, including							(32,005)		(7,362)	427,824				388,457
7.1. Distribution to the General reserve														-
7.2. Loss cover accumulated at the expense of general reserve														-
7.3. Cover of emission loss														-
7.4. Decrease of growth from the recalculation of fixed assets and intangible assets									(7,362)					(7,362)
7.5. Internal movements of other equity items							(32,005)			427,824				395,819
8. Balance at the end of similar interim period of preceding financial year as of 30 March 2018 (checked/unchecked)	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**426,482**	**-**	**(7,730)**	**-**	**1,461,721**	**585,551**	**-**	**-**	**-**	**32,561,315**

Interim period of previous financial year (increasing from the beginning of the year) (II scheme)														
9. Balance at the beginning of the financial year as of 01 January 2019 (checked/unchecked)	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**448,298**	**-**	**(255,830)**	**-**	**1,495,348**	**765,337**	**-**	**-**	**-**	**32,548,444**
9.1. General result of accounting policy changes and adjustment of considerable mistakes														
10.Recalculated balance	20,489,653	-	20,489,653	9,605,638	448,298	-	(255,830)	-	1,495,348	765,337	-	-	-	32,548,444
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										(1,807)				(1,807)
14. Increase/ decrease of equity items, including														-
14.1. Increase/ decrease of derivative instruments classified as equity instruments														-
14.2. Internal movements, including							(64,588)		(23,018)	143,670				56,064
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									(23,018)					(23,018)
15.5. Internal movements of other equity items							(64,588)			143,670				79,082
10. Balance at the end of interim reporting financial period as of 31 March 2019	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**448,298**	**-**	**(320,418)**	**-**	**1,472,330**	**907,200**	**-**	**-**	**-**	**32,602,701**

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on cash flow
31-Mar-19
" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Notes	Previous period 31.03.2018	Reporting period 31.03.2019
1. Cash flows from operating activities		x	x
Net cash flows before changes in operating assets and liabilities		2,176,836	2,475,240
Interest receivable		5,000,796	4,462,439
Interes payable		(3,123,436)	(2,064,505)
Commission receivable		275,815	659,781
Commission payable		(90,159)	(138,949)
Profit/ loss from financial assets for commercial purposes		456,520	314,358
Profit/ loss from foreign currency exchange		168,637	313,140
Return of write off assets		684,459	692,607
Paid salary and equalled to it other payments		(875,471)	(1,051,423)
Other income receivable and other expenses payable from operating activities		(320,325)	(712,208)
Cash flows from the changes in operating assets and liabilities		421,748	2,027,212
(Increase)/decrease in operating assets		1,601,777	146,379
including (Increase)/decrease in credits/loans		(2,808,658)	(1,306,567)
(Increase)/decrease of share for commercial purposes		4,563,665	757,737
(Increase)/decrease of receivable leasing			
Decrease (increase) of other operating assets		(153,230)	695,209
(Increase)/decrease of operating liabiities		(1,180,029)	1,880,833
including (Increase)/decrease of liabiities to customers		(1,565,275)	3,806,787
(Increase)/decrease of other operating liabiities		385,246	1,925,954
Net cash flows used in operating activities before income tax		2,598,584	4,502,452
Income tax paid			(4,768)
Net cash flows used in operating activities		2,598,584	4,497,684
2. Cash flows from investing activities		x	x
(Increase)/decrease in participation in the statutory capital of other organizations			
(Increase)/decrease of investnents held up to maturity			(1,221,949)
(Increase)/decrease of deposits placed in other banks			323,688
(Increase)/decrease of statute investnentsin the fixed assets and intangible assets		(18,500)	(99,602)
Purchase of fixed assets and intangible assets		(373,538)	(44,353)
Amortization of fixed assets and intangible assets		7,555	106,813
Net cash flow from other investment activity		(7,936)	(340,603)
Net cash flows used in investing activities		(392,419)	(1,276,006)
Cash flow from financing activities		x	x
Dividend paid			(224,070)
(Increase)/decrease in loans received from Central Bank of Republic of Armenia		(569,281)	(373,233)
(Increase)/decrease in loans received from the Banks		(3,872,799)	
(Increase)/decrease in other loans		(610,910)	
(Increase)/decrease in securities issued by the Bank		2,621,017	107,102
Investment in statutory capital			
(Increase)/decrease in funds received from leasing			
Net cash flow from other financing activities			
Net cash flow from financing activities		(2,431,973)	(490,201)
Exchange differences on cash and cash equivalents		784,892	(160)
Net increase/ (decrease) in cash and cash equivalents		559,084	2,731,317
Cash and cash equivalents at the beginning of the year	13_2	31,843,954	32,049,007
Cash and cash equivalents at the end of the year	13_2	32,403,038	34,780,324

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the financial result

30-Jun-19

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name	Notes	Current interim period 01.04.19-30.06.19	Reporting period 01.01.19_30.06.19	Previous interim period 01.04.18_30.06.18 (checked)	Previous period 01.01.18_30.06.18 (checked)
Interest and similar income	3	4,763,319	9,538,573	5,418,553	10,909,984
Interest and similar expenses	3	(2,317,510)	(4,602,852)	(2,341,013)	(4,887,758)
Net interest and other income		**2,445,809**	**4,935,721**	**3,077,540**	**6,022,226**
Commission income	4	714,249	1,347,076	309,461	591,220
Commission expenses	4	(134,319)	(273,268)	(94,929)	(185,088)
Net commission income		**579,930**	**1,073,808**	**214,532**	**406,132**
Income from dividents					
Net trading income	5	394,847	695,009	183,782	328,062
Other Operational income	6	247,913	407,992	295,940	552,726
Operational income		**3,668,499**	**7,112,530**	**3,771,794**	**7,309,146**
Expenses related to loan loss provisioning	7	(1,162,828)	(2,336,487)	(1,676,690)	(2,976,241)
Total administrative expenses	8	(1,054,730)	(2,125,732)	(1,023,104)	(1,911,882)
Other operational expenses	9	(1,035,358)	(2,054,951)	(831,166)	(1,639,587)
Net gain/loss from investments	10				
Gain (loss) before taxation		**415,583**	**595,360**	**240,834**	**781,436**
Profit tax expenses	11	(26,059)	(62,165)	(41,714)	(154,493)
Gain (loss) after taxation		**389,524**	**533,195**	**199,120**	**626,943**
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-19

" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Reporting period 01.01.19_30.06.19	Previous period 01.01.18_30.06.18
Other aggregate financial result		
Rate exchange from the converting of foreign transactions		
Revaluation of financial assets	3,323	(164,244)
Cash flow hedging		
Income from the revaluation on the current assets	(28,773)	
Income tax from other aggregate income	5,090	32,849
Other aggregate result after taxation	(20,360)	(131,395)
Aggregated financial result	512,835	495,548
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

30-Jun-19

" 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 30.06.2019	At the end of preceding financial year (checked) 31.12.2018
1	**Assets**			
1.1	Cash and balances with CBA	13	39,589,815	32,049,007
1.3	Amounts due from banks and other financial	14	15,026,228	12,983,447
1.4	Derivative financial assets	14.1		758
1.5	Loans and borrowings to customers	16	135,099,245	134,279,082
1.6	Financial assets available for commercial purposes	17	5,426,399	3,817,080
1.7	Investments kept upon repayment period	18	11,709,130	12,822,788
1.8	Right to use leased assets	21.2	1,156,242	
1.9	Fixed and intangible assets	20	10,302,234	10,178,397
1.10	Deferred tax assets	11		
1.11	Prepayment on profit tax	21.1	141,769	
1.12	Other assets	21	4,094,273	3,669,102
	Total assets		222,545,335	209,799,661
2	**Liabilities**			
2.1	Amounts due to the banks and other financial institutions	22	11,813,453	9,039,951
1.4	Derivative financial liabilities	22.1	10,824	12,813
2.2	Amounts due to customers	23	160,328,410	151,452,004
2.3	Subboridnated loan	23.1	5,778,032	6,636,888
2.5	Liabilities on leased assets	27.1	1,172,310	
2.4	Securities issued by Bank	24	8,998,481	8,576,459
2.8	Current tax liabilities	27	130,199	60,495
2.7	Deferred tax liabilities	11	451,119	526,585
2.9	Other liabilities	27	803,034	946,049
	Total Liabilities		189,485,862	177,251,244
3	Equity			
3.1	Share capital	28	20,489,653	20,489,652
3.2	Emission income		9,605,638	9,605,639
3.3	Reserves		1,728,034	1,687,816
3.3.1	General reserve		508,876	448,298
3.3.2	Re-assessment reserve		1,219,158	1,239,518
3.4	Retained gain (loss)		1,236,148	765,337
3.5	Other items of equity			
	Total equity		33,059,473	32,548,444
	Total liabilities and equity		222,545,335	209,799,688

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

UNIBANK OPEN JOINT STOCK COMPANY * 02559077 *

Interim report on the changes in Private Equity
30-Jun-19
" 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 foreign operations	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 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**
1.1. General result of accounting policy changes and adjustment of considerable mistakes										(3,444,346)				(3,444,346)
2. Recalculated balance	20,489,653	-	20,489,653	9,605,638	426,482	-	24,275	-	1,469,083	128,366	-	-	-	31,143,497
3. Operations with the shareholders, via shares, including														-
3.1. Investments in the share capital and other increase of the share capital														-
3.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks														-
4. Comprehensive income														
5. Dividents														-
6. Increase/ decrease of equity item, including														-
6.1. Increase/ decrease of derivative instruments classified as equity instruments														-
7. Internal movements, including							(131,395)		32,830	626,475				527,910
7.1. Distribution to the General reserve														-
7.2. Loss cover accumulated at the expense of general reserve														-
7.3. Cover of emission loss														-
7.4. Decrease of growth from the recalculation of fixed assets and intangible assets									32,830					32,830
7.5. Internal movements of other equity items							(131,395)			626,475				495,080
8.Balance at the end of similar interim period of preceding financial year as of 30 June 2018 (checked/unchecked)	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**426,482**	**-**	**(107,120)**	**-**	**1,501,913**	**754,841**	**-**	**-**	**-**	**32,671,407**

Interim period of previous financial year (increasing from the beginning of the year) (II scheme)														
9. Balance at the beginning of the financial year as of 01 January 2019 (checked/unchecked)	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**448,298**	**-**	**(255,830)**	**-**	**1,495,348**	**765,337**	**-**	**-**	**-**	**32,548,444**
9.1. General result of accounting policy changes and adjustment of considerable mistakes														
10.Recalculated balance	20,489,653	-	20,489,653	9,605,638	448,298	-	(255,830)	-	1,495,348	765,337	-	-	-	32,548,444
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										(1,807)				(1,807)
14. Increase/ decrease of equity items, including														-
14.1. Increase/ decrease of derivative instruments classified as equity instruments														-
14.2. Internal movements, including					60,578		2,658		(23,018)	472,617				512,835
15.1. Distribution to the General reserve					60,578					(60,578)				-
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									(23,018)					(23,018)
15.5. Internal movements of other equity items							2,658			533,195				535,853
10. Balance at the end of interim reporting financial period as of 30 June 2019	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**508,876**	**-**	**(253,172)**	**-**	**1,472,330**	**1,236,147**	**-**	**-**	**-**	**33,059,472**

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on cash flow

30-Jun-19

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Notes	Previous period 30.06.2018	Reporting period 30.06.2019
1. Cash flows from operating activities		x	x
Net cash flows before changes in operating assets and liabilities		4,314,382	4,624,815
Interest receivable		9,126,116	8,873,531
Interes payable		(4,715,887)	(4,532,643)
Commission receivable		591,219	1,389,021
Commission payable		(185,088)	(273,268)
Profit/ loss from financial assets for commercial purposes		784,708	667,519
Profit/ loss from foreign currency exchange		429,030	630,749
Return of write off assets		737,222	1,186,750
Paid salary and equalled to it other payments		(1,778,630)	(2,062,351)
Other income receivable and other expenses payable from operating activities		(674,308)	(1,254,493)
Cash flows from the changes in operating assets and liabilities		(1,649,829)	3,506,056
(Increase)/decrease in operating assets		4,800,203	(4,597,720)
including (Increase)/decrease in credits/loans		140,678	(4,998,326)
(Increase)/decrease of share for commercial purposes		5,895,367	419,406
(Increase)/decrease of receivable leasing			
Decrease (increase) of other operating assets		(1,235,842)	(18,800)
(Increase)/decrease of operating liabiities		(6,450,032)	8,103,776
including (Increase)/decrease of liabiities to customers		(5,000,475)	10,349,834
(Increase)/decrease of other operating liabiities		(1,449,557)	(2,246,058)
Net cash flows used in operating activities before income tax		2,664,553	8,130,871
Income tax paid		(34,830)	(202,737)
Net cash flows used in operating activities		2,629,723	7,928,134
2. Cash flows from investing activities		x	x
(Increase)/decrease of investnents held up to repayment period			(997,819)
(Increase)/decrease of investnents in the share capital of other persons			
(Increase)/decrease of deposits placed in other banks			(2,000,321)
(Increase)/decrease of statute investnentsin the fixed assets and intangible assets		(65,309)	(183,839)
Purchase of fixed assets and intangible assets		(499,659)	(225,879)
Amortization of fixed assets and intangible assets		231,320	46,070
Net cash flow from other investment activity		(297,078)	(298,614)
Net cash flows used in investing activities		(630,726)	(3,660,402)
Cash flow from financing activities		x	x
Dividend paid			(224,070)
(Increase)/decrease in loans received from Central Bank of Republic of Armenia		(539,593)	(256,716)
(Increase)/decrease in loans received from the Banks		(908,320)	3,500,000
(Increase)/decrease in other loans		(608,850)	
(Increase)/decrease in currency of the Bank		180,480	422,022
Investment to share capital			
(Increase)/decrease payable leasing			
Net cash flow from other financing activities			
Net cash flow from financing activities		(1,876,283)	3,441,236
Exchange differences on cash and cash equivalents		(191,525)	(89,414)
Net increase/ (decrease) in cash and cash equivalents		(68,811)	7,619,554
Cash and cash equivalents at the beginning of the year	13_2	31,843,954	32,049,007
Cash and cash equivalents at the end of the year	13_2	31,775,143	39,668,561

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on the financial result

30/09/2019

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

(thousand AMD)

Name	Notes	Current interim period 01.07.19_30.09.19	Reporting period 01.01.19_30.09.19	Previous interim period 01.07.18_30.09.18 (checked)	Previousperiod 01.01.18_30.09.18 (checked)
Interest and similar income	3	4,592,227	14,130,800	4,722,558	15,632,542
Interest and similar expenses	3	(2,342,034)	(6,944,886)	(2,221,740)	(7,109,498)
Net interest and other income		**2,250,193**	**7,185,914**	**2,500,818**	**8,523,044**
Commission income	4	853,371	2,200,447	953,702	1,544,922
Commission expenses	4	(156,900)	(430,168)	(106,913)	(292,001)
Net commission income		**696,471**	**1,770,279**	**846,789**	**1,252,921**
Income from dividents					
Net trading income	5	740,263	1,435,272	(3,605)	324,457
Other Operational income	6	220,568	628,560	228,598	781,324
Operational income		**3,907,495**	**11,020,025**	**3,572,600**	**10,881,746**
Expenses related to loan loss provisioning	7	(829,885)	(3,166,372)	(1,509,883)	(4,486,124)
Total administrative expenses	8	(1,142,457)	(3,268,189)	(896,549)	(2,808,431)
Other operational expenses	9	(1,366,888)	(3,421,839)	(862,435)	(2,502,022)
Net gain/loss from investments	10				
Gain (loss) before taxation		**568,265**	**1,163,625**	**303,733**	**1,085,169**
Profit tax expenses	11	(127,730)	(189,895)	(163,872)	(318,365)
Gain (loss) after taxation		**440,535**	**973,730**	**139,861**	**766,804**
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

30/09/19

" UNIBANK" OJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Reporting period 01.01.19_30.09.19	Previous period 01.01.18_30.09.18
Other aggregate financial result		
Rate exchange from the converting of foreign transactions		
Revaluation of financial assets	(49,953)	(252,025)
Cash flow hedging		
Income from the revaluation on the current assets	(28,773)	
Income tax from other aggregate income	15,745	50,405
Other aggregate result after taxation	(62,980)	(201,620)
Aggregated financial result	910,750	565,184
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

30/09/19

" 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 30.09.2019	At the end of preceding financial year (checked) 31.12.2018
1	**Assets**			
1.1	Cash and balances with CBA	13	57,882,664	32,049,007
1.3	Amounts due from banks and other financial institutions	14	13,443,367	12,983,447
1.4	Derivative financial assets	14.1		785
1.5	Loans and borrowings to customers	16	134,792,109	134,279,082
1.6	Financial assets available for commercial purposes	17	3,423,972	3,817,080
1.7	Investments kept upon repayment period	18	13,666,234	12,822,788
1.8	Right to use leased assets	21.2	1,050,969	
1.9	Fixed and intangible assets	20	10,312,895	10,178,397
1.10	Deferred tax assets	11		
1.11	Prepayment on profit tax	21.1	206,024	
1.12	Other assets	21	5,599,550	3,669,102
	Total assets		**240,377,784**	**209,799,688**
2	**Liabilities**			
2.1	Amounts due to the banks and other financial institutions	22	11,526,858	9,039,951
2.2	Derivative financial liabilities	22.1	656	12,813
2.3	Amounts due to customers	23	176,681,513	151,452,004
2.4	Subboridnated loan	23.1	6,018,748	6,636,888
2.5	Liabilities on leased assets	27.1	1,076,253	
2.6	Securities issued by Bank	24	8,980,173	8,576,459
2.7	Current tax liabilities	27	234,398	60,495
2.8	Deferred tax liabilities	11	495,117	526,585
2.9	Reserves	30	83,959	79,061
2.10	Other liabilities	27	1,822,721	866,988
	Total Liabilities		**206,920,396**	**177,251,244**
3	Կապիտալ			
3.1	Share capital	28	20,489,653	20,489,652
3.2	Emission income		9,605,638	9,605,639
3.3	Reserves		1,685,413	1,687,816
3.3.1	General reserve		508,875	448,298
3.3.2	Re-assessment reserve		1,176,538	1,239,518
3.4	Retained gain (loss)		1,676,684	765,337
3.5	Other items of equity			
	Մայր կազմակերպությանը պատկանող կապիտալ			
	Փոքրամասնության բաժնեմաս			
	Total equity		33,457,388	32,548,444
	Total liabilities and equity		240,377,784	209,799,688

Chairman of the Executive Board — Mesrop Hakobyan

Chief Accountant — Gohar Grigoryan

Interim report on the changes in Private Equity

30/09/19

" 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 foreign operations	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 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
1.1. General result of accounting policy changes and adjustment of considerable mistakes										(3,444,346)				(3,444,346)
2. Recalculated balance	20,489,653	-	20,489,653	9,605,638	426,482	-	24,275	-	1,469,083	128,366	-	-	-	32,143,497
3. Operations with the shareholders, via shares, including														-
3.1. Investments in the share capital and other increase of the share capital														-
3.2. Decrease of share capital, including at the expense of repurchased and out off circulation stocks														-
4. Comprehensive income														-
5. Dividents														-
6. Increase/ decrease of equity item, including														-
6.1. Increase/ decrease of derivative instruments classified as equity instruments							(131,395)		32,830	626,475				527,910
7. Internal movements, including														-
7.1. Distribution to the General reserve														-
7.2. Loss cover accumulated at the expense of general reserve														-
7.3. Cover of emission loss														
7.4. Decrease of growth from the recalculation of fixed assets and intangible assets									32,830					32,830
7.5. Internal movements of other equity items							(131,395)			626,475				495,080
8. Balance at the end of similar interim period of preceding financial year as of 30 September 2018 (checked/unchecked)	20,489,653	-	20,489,653	9,605,638	426,482	-	(107,120)	-	1,501,913	754,841	-	-	-	32,671,407

Interim period of previous financial year (increasing from the beginning of the year) (II scheme)														
9. Balance at the beginning of the financial year as of 01 January 2019 (checked/unchecked)	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**448,298**	**-**	**(255,830)**	**-**	**1,495,348**	**765,337**	**-**	**-**	**-**	**32,548,444**
9.1. General result of accounting policy changes and adjustment of considerable mistakes														
10.Recalculated balance	20,489,653	-	20,489,653	9,605,638	448,298	-	(255,830)	-	1,495,348	765,337	-	-	-	32,548,444
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										(1,807)				(1,807)
14. Increase/ decrease of equity items, including														-
14.1. Increase/ decrease of derivative instruments classified as equity instruments														-
15. Internal movements, including					60,578		(39,962)		(23,018)	913,154				910,752
15.1. Distribution to the General reserve					60,578					(60,578)				-
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									(23,018)					(23,018)
15.5. Internal movements of other equity items							(39,962)			973,732				933,770
10. Balance at the end of interim reporting financial period as of 30 September 2019	**20,489,653**	**-**	**20,489,653**	**9,605,638**	**508,876**	**-**	**(295,792)**	**-**	**1,472,330**	**1,676,684**	**-**	**-**	**-**	**33,457,389**

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**

Interim report on cash flow

30-Sep-19

" UNIBANK" CJSC Yerevan 0025, 12 Charents st, N 53, 1-5

thousand AMD

Name	Notes	Previous period 30.09.2018	Reporting period 30.09.2019
1. Cash flows from operating activities		x	x
Net cash flows before changes in operating assets and liabilities		7,799,148	6,744,288
Interest receivable		13,982,398	14,081,649
Interes payable		(6,952,208)	(7,067,853)
Commission receivable		1,544,922	1,481,047
Commission payable		(292,001)	(430,168)
Profit/ loss from financial assets for commercial purposes		1,086,819	1,014,549
Profit/ loss from foreign currency exchange		751,173	1,467,523
Return of write off assets		2,003,120	1,770,998
Paid salary and equalled to it other payments		(2,782,160)	(3,226,184)
Other income receivable and other expenses payable from operating		(1,542,915)	(2,347,273)
Cash flows from the changes in operating assets and liabilities		370,363	16,428,226
(Increase)/decrease in operating assets		(1,987,422)	(8,422,465)
including (Increase)/decrease in credits/loans		(6,256,063)	(8,785,829)
(Increase)/decrease of share for commercial purposes		5,615,977	393,108
(Increase)/decrease of receivable leasing			202,751
Decrease (increase) of other operating assets		(1,347,336)	(232,495)
(Increase)/decrease of operating liabiities		2,357,785	24,850,691
including (Increase)/decrease of liabiities to customers		3,871,841	27,486,294
(Increase)/decrease of other operating liabiities		(1,514,056)	(2,635,603)
Net cash flows used in operating activities before income tax		8,169,511	23,172,514
Income tax paid		(104,491)	(266,992)
Net cash flows used in operating activities		8,065,020	22,905,522
2. Cash flows from investing activities		x	x
(Increase)/decrease of investnents held up to repayment period			(1,013,864)
(Increase)/decrease of investnents in the share capital of other persons			
(Increase)/decrease of deposits placed in other banks			(113,277)
(Increase)/decrease of statute investnentsin the fixed assets and intangible assets		(177,962)	(412,712)
Purchase of fixed assets and intangible assets		(243,884)	(278,851)
Amortization of fixed assets and intangible assets		384,130	518,179
Net cash flow from other investment activity		(235,594)	(309,944)
Net cash flows used in investing activities		(273,310)	(1,610,469)
Cash flow from financing activities		x	x
Dividend paid			(224,070)
(Increase)/decrease in loans received from Central Bank of Republic of		(1,166,011)	(58,611)
(Increase)/decrease in loans received from the Banks		(2,372,799)	3,500,001
(Increase)/decrease in other loans		(1,200,474)	1,811,498
(Increase)/decrease in securities issued by the Bank		166,724	403,714
Investment in statutory capital			
(Increase)/decrease in funds received from leasing			
Net cash flow from other financing activities			
Net cash flow from financing activities		(4,572,560)	5,432,532
Exchange differences on cash and cash equivalents		(493,587)	(893,928)
Net increase/ (decrease) in cash and cash equivalents		2,725,563	25,833,657
Cash and cash equivalents at the beginning of the year	13_2	31,843,954	32,049,007
Cash and cash equivalents at the end of the year	13_2	34,569,517	57,882,664

Chairman of the Executive Board **Mesrop Hakobyan**

Chief Accountant **Gohar Grigoryan**