



**Ameriabank cjsc**

**Financial Statements**

**For the third quarter of 2017**

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Statement of comprehensive income  
30-Sep-2017

Name of the Bank Ameriabank CJSC  
Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	Note	01/07/2017- 30/09/2017 (unaudited)	01/01/2017- 30/09/2017 (unaudited)	01/07/2016- 30/09/2016 (unaudited)	01/01/2016- 30/09/2016 (unaudited)
Interest income	4	11,587,813	37,121,683	10,403,485	30,646,578
Interest expenses	4	(7,115,624)	(23,877,875)	(6,630,801)	(19,842,026)
<b>Net interest income</b>		<b>4,472,189</b>	<b>13,243,808</b>	<b>3,772,684</b>	<b>10,804,552</b>
Fee and commission income	5	924,738	2,479,067	748,235	2,064,866
Fee and commission expense	6	(220,296)	(565,207)	(168,953)	(444,385)
<b>Net fee and commission income</b>		<b>704,442</b>	<b>1,913,860</b>	<b>579,282</b>	<b>1,620,481</b>
Net profit/loss on financial instruments at fair value through profit or loss	7	(1,031,685)	(2,002,740)	117,780	4,490
Net foreign exchange income	8	2,025,419	4,230,595	692,494	1,792,672
Net gain on available-for-sale financial assets		44,904	206,290	553,671	607,804
Other operating income	9	456,134	1,236,193	334,016	1,092,600
Other operating expense	9	(472,015)	(1,398,294)	(360,159)	(1,041,813)
<b>Operating income</b>		<b>6,199,388</b>	<b>17,429,713</b>	<b>5,689,769</b>	<b>14,880,787</b>
Impairment reversals (losses)	10	(1,076,980)	(3,235,678)	(1,890,128)	(4,064,306)
Personnel expenses		(1,534,031)	(4,432,574)	(1,317,869)	(3,874,748)
Other general administrative expenses	11	(1,035,160)	(2,996,715)	(883,984)	(2,663,744)
<b>Profit before income tax</b>		<b>2,553,217</b>	<b>6,764,746</b>	<b>1,597,788</b>	<b>4,277,989</b>
Income tax expense	12	(508,704)	(1,379,131)	(235,853)	(771,893)
<b>Profit for the period</b>		<b>2,044,513</b>	<b>5,385,614</b>	<b>1,361,935</b>	<b>3,506,095</b>
<b>Other comprehensive income, net of income tax</b>					
Increase/decrease in revaluation reserve of financial assets		(929)	44,784	142,023	629,919
<b>Other comprehensive income for the period, net of income tax</b>		<b>(929)</b>	<b>44,784</b>	<b>142,023</b>	<b>629,919</b>
<b>Total comprehensive income for the period</b>		<b>2,043,584</b>	<b>5,430,398</b>	<b>1,503,958</b>	<b>4,136,014</b>

Validation date 13.10.17

General Director-Chairman of the Management Board

Artak Hanesyan

Chief Accountant

Gohar Khachatryan



**Statement of Financial Position**  
30-Sep-2017

Name of the Bank Ameriabank CJSC  
Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	Note	30/09/2017 (unaudited)	31/12/2016 (audited)
<b>Assets</b>			
Cash and cash equivalents	13	142,744,059	135,280,872
Banking standardized bullions of precious metals		656,536	351,233
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	2,605,475	3,130,071
Available-for-sale financial assets			
- Held by the Bank	15	12,454,648	12,408,292
- Pledged under sale and repurchase agreements	15		-
Loans and advances to banks	16	15,129,773	4,853,302
Amounts receivable under reverse repurchase agreements	17	8,646,697	6,446,797
Loans to customers	18	416,709,825	499,288,522
Receivables from letters of credit	19	2,056,565	7,707,303
Receivables from finance leases	20	1,644,791	2,040,022
Receivables from factoring	21	4,260,954	4,182,862
Held-to-maturity investments			
- Held by the Bank	22	47,791,768	36,255,642
- Pledged under sale and repurchase agreements	22	1,023,483	
Property, equipment and intangible assets	23	5,594,946	3,651,239
Current tax asset	12	680,914	1,321,801
Other assets	24	5,345,623	2,445,465
<b>Total assets</b>		<b>667,346,057</b>	<b>719,363,423</b>
<b>Liabilities</b>			
Financial instruments at fair value through profit or loss	14	219,107	2,535,283
Amounts payable under repurchase agreements		1,042,283	
Deposits and balances from banks	25	32,341,865	71,834,882
Current accounts and deposits from customers	26	395,720,289	414,608,686
Debt securities issue	27	35,580,544	18,124,500
Subordinated borrowings	28	39,565,571	40,811,255
Other borrowed funds	28	87,685,448	102,735,039
Deferred tax liabilities	12	2,192,312	1,442,872
Other liabilities	29	4,411,749	2,873,138
<b>Total liabilities</b>		<b>598,759,168</b>	<b>654,965,655</b>
<b>Equity</b>			
Share capital	30	32,087,360	32,087,360
Share premium		7,755,179	7,755,179
Revaluation reserve		352,681	307,897
Retained earnings		28,391,669	24,247,332
<b>Total equity</b>		<b>68,586,889</b>	<b>64,397,768</b>
<b>Total liabilities and equity</b>		<b>667,346,057</b>	<b>719,363,423</b>

Validation date 13.10.17

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General Director-Chairman of the Management Board

Artak Hanesyan

Chief Accountant

Gohar Khachatryan



**Statement of cash flows**  
30-Sep-2017

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	01/01/2017- 30/09/2017 (unaudited)	01/01/2016- 30/09/2016 (unaudited)
<b>Cash flow from operational activities</b>	<b>x</b>	<b>x</b>
Interests receipts	33,689,184	30,433,016
Interests payments	(22,974,906)	(18,854,256)
Fee and commissions receipts	2,479,066	2,064,884
Fee and commissions payments	(565,207)	(444,385)
Net receipts from available-for-sale financial assets	100,629	804,493
Net receipts from foreign exchange	2,341,785	1,781,570
Other income/expenses	(154,948)	1,174,591
Salaries and other payments to employees	(4,590,333)	(4,674,081)
Other general administrative expense payments	(2,353,836)	(2,078,820)
<b>Decrease (Increase) in operating assets, including:</b>		
Financial instruments at fair value through profit or loss	528,368	403,766
Loans and advances to banks	(10,155,178)	2,880,060
Amounts receivable under reverse repurchase agreements	(2,211,214)	(1,086,410)
Loans to customers	80,271,165	(43,655,047)
Receivables from finance leases	425,590	60,889
Receivables from letters of credit	5,713,716	1,807,724
Receivables from factoring	(83,618)	(524,461)
Other assets	(3,226,938)	(1,418,057)
<b>Increase (Decrease) in other operating liabilities, including:</b>		
Financial instruments at fair value through profit or loss	(4,215,766)	(591,869)
Deposits and balances from banks	(38,473,971)	(176,064)
Amounts payable under repurchase agreements	1,041,712	(11,345,196)
Current accounts and deposits from customers	(21,258,493)	6,325,026
Other liabilities	431,710	35,485
<b>Net cash from (used in) operating activities before income tax paid</b>	<b>16,758,517</b>	<b>(37,077,142)</b>
Income tax paid	-	(930,000)
<b>Net cash flow from operational activities after profit tax</b>	<b>16,758,517</b>	<b>(38,007,142)</b>
<b>Net cash flow from investing activities</b>	<b>x</b>	<b>x</b>
Purchases of property and equipment and intangible assets	(2,593,787)	(894,933)
Sales of property and equipment and intangible assets	10,757	148,515
Available-for-sale financial assets	(177,455)	2,434,554
Held-to-maturity investments	(11,608,864)	(3,110,189)
<b>Net cash flow from investing activities</b>	<b>(14,369,349)</b>	<b>(1,422,052)</b>
<b>Net cash flow from financing activities</b>	<b>x</b>	<b>x</b>
Dividends paid	-	(1,685,286)
Net receipts of other borrowed funds	(14,377,807)	(918,101)
Receipts from issuance of debt securities	17,681,624	16,880,195
<b>Net cash flow from financing activities</b>	<b>3,303,817</b>	<b>14,276,808</b>
Effect of changes in exchange rates on cash and cash equivalents	1,770,202	(24,495)
<b>Net increase in cash and cash equivalents</b>	<b>7,463,187</b>	<b>(25,176,881)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>135,280,872</b>	<b>142,713,317</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>142,744,059</b>	<b>117,536,436</b>

Validation date 13.10.17

General Director-Chairman of the Management Board

Artak Hanesyan

Chief Accountant

Gohar Khachatryan



**Statement of changes in equity**  
**30-Sep-2017**

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	Share capital	Share premium/loss	Revaluation reserve for financial assets	Retained earnings	Total
<b>Appropriate interim period of previous financial year (cumulative)</b>					
<b>Balance as of 01 January 2016 (audited)</b>	32,087,360	7,755,179	(251,309)	19,725,932	59,317,162
The cumulative effect of changes in accounting policy and the correction of fundamental errors	-	-	-	-	-
<b>Balance after recalculation</b>	32,087,360	7,755,179	(251,309)	19,725,932	59,317,162
Increase/decrease in fair value of financial assets, net of income tax	-	-	629,919	-	629,919
Net profit/ loss for the period	-	-	-	3,506,095	3,506,095
Dividends	-	-	-	(1,685,286)	(1,685,286)
<b>Balance as of 30 September 2016 (unaudited)</b>	32,087,360	7,755,179	378,610	21,546,741	61,767,890

<b>Interim period of current financial year (cumulative)</b>					
<b>Balance as of 01 January 2017 (audited)</b>	32,087,360	7,755,179	307,897	24,247,332	64,397,768
The cumulative effect of changes in accounting policy and the correction of fundamental errors	-	-	-	-	-
<b>Balance after recalculation</b>	32,087,360	7,755,179	307,897	24,247,332	64,397,768
Increase/decrease in fair value of financial assets, net of income tax	-	-	44,784	-	44,784
Net profit/ loss for the period	-	-	-	5,385,614	5,385,614
Dividends	-	-	-	(1,241,277)	(1,241,277)
<b>Balance as of 30 September 2017 (unaudited)</b>	32,087,360	7,755,179	352,681	28,391,669	68,586,889

Validation date 13.10.17

General Director-Chairman of the Management Board

Artak Hanesyan

Chief Accountant

Gohar Khachatryan



## **1 Background**

### **(a) Organisation and operations**

Ameriabank cjsc (formerly Armimpexbank cjsc) (the Bank) was established on 8 December 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased its share in the Bank to 100%. On December 23, 2015 European Bank for Reconstruction and Development purchased in full additionally issued shares of the Bank for AMD 14,366,288 thousand.

On December 21, 2016 ESPS Holding Limited purchased 13.5% of Bank shares as a result of which Ameria Group (CY) holds 65.8% of Bank shares.

The shareholders of the Bank as at 31 December 2016 are Ameria Group (CY) 65.8%, EBRD 20.7% and ESPS Holding Limited 13.5%

The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank's assets and liabilities are located in Armenia.

The Bank has 13 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 9 Grigor Lusavorich Street, Yerevan 0015, Republic of Armenia. The average number of the Bank's employees for 2017 was 684 (2016: 621).

Related party transactions are detailed in note 36.

### **(b) Armenian business environment**

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

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

**(c) Functional and presentation currency**

The financial statements are presented in Armenian Drams (AMD), which is the Bank's functional and presentation currency. Financial information presented in AMD is rounded to the nearest thousand. The official CBA exchange rates at 30 September 2017 and 31 December 2016 were 478.41 AMD and 483.94 AMD to 1 USD, and 564.57 AMD and 512.2AMD to 1 EUR, respectively.

**(d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 18 "Loans to customers".

**(e) Changes in accounting policies and presentation**

***Changes in accounting policies***

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2016:

**Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

***Annual improvements 2012-2014 cycle***

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations



Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. The amendment does not have impact on the Bank.

#### IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment does not have impact on the Bank.

### **3 Significant accounting policies**

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

#### **(a) Foreign currency**

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognized in other comprehensive income.

#### **(b) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, balances held with the CBA, including obligatory reserves, unrestricted balances (nostro accounts) held with other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### **(c) Financial instruments**

**(i) Classification**

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- ▶ acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- ▶ part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- ▶ derivative financial instruments (except for derivative that is financial guarantee contract or designated and effective hedging instruments); or
- ▶ upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- ▶ the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- ▶ the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- ▶ the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- ▶ intends to sell immediately or in the near term;
- ▶ upon initial recognition designates as at fair value through profit or loss;
- ▶ upon initial recognition designates as available-for-sale; or
- ▶ may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- ▶ the Bank upon initial recognition designates as at fair value through profit or loss;
- ▶ the Bank designates as available-for-sale; or

- ▶ meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

***(ii) Recognition***

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the trade date.

***(iii) Measurement***

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

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

- ▶ loans and receivables which are measured at amortized cost using the effective interest method;
- ▶ held-to-maturity investments that are measured at amortized cost using the effective interest method;
- ▶ investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

***(iv) Amortized cost***

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

***(v) Fair value measurement principles***

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset

or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

***(vi) Gains and losses on subsequent measurement***

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

- ▶ a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;
- ▶ a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

***(vii) Derecognition***

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of

ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

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

The Bank writes off assets deemed to be uncollectible.

***(viii) Repurchase and reverse repurchase agreements***

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

***(ix) Derivative financial instruments***

Derivative financial instruments include swaps, forwards, futures, and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

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

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

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

**(x) Offsetting**

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

**(d) Property and equipment**

**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

**(ii) Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	5-10 years
Computers and communication equipment	1 to 7 years
Fixtures and fittings	3 to 10 years
Motor vehicles	7 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

**(e) Intangible assets**

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

**(f) Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter

generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

**(g) Impairment**

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

**(i) Financial assets carried at amortized cost**

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This

may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

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

***(ii) Financial assets carried at cost***

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

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

***(iii) Available-for-sale financial assets***

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

***(iv) Non financial assets***

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.



All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

**(h) Provisions**

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

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(i) Credit related commitments**

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

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

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognized, except for the followings:

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

**(j) Share capital**

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

***(i) Share premium***

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

***(ii) Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

***(iii) Dividends***

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared and such decision is effective according to legislation of the Republic of Armenia.

**(k) Taxation**

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and

credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

**(l) Income and expense recognition**

Interest income and expense are recognized in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognized in gains (losses) from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

**(m) Leases**

***Finance – Bank as lessee***

The Bank recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

***Finance – Bank as lessor***

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

***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 into other operating expenses.

***Operating – Bank as lessor***

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

**(n) New standards and interpretations not yet adopted**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require 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 will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the

classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact. The Bank has started the process of transition to IFRS 9 and is expected to finalize it by the end of 2017.

#### IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

#### IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

#### Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

#### Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.  
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation, or
  - (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.
- Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The amendment does not have impact on the Bank.

## 4 Net interest income

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
<b>Interest income</b>				
Loans to customers	9,928,570	32,490,275	9,033,734	26,293,796
Income from factoring	126,749	377,274	213,177	622,552
Available-for-sale financial assets	296,229	825,792	329,592	984,417
Receivables from finance leases	33,824	111,185	56,986	164,395
Held-to-maturity investments	769,689	2,169,829	421,253	1,321,262
Loans and advances to banks	74,489	146,248	44,275	226,464
Amounts receivable under reverse repurchase agreements	204,867	486,552	139,244	420,278
Receivables from letters of credit	141,784	458,400	164,093	587,781
Other	11,612	56,128	1,132	25,634
	<b>11,587,813</b>	<b>37,121,683</b>	<b>10,403,485</b>	<b>30,646,578</b>
<b>Interest expense</b>				
Current accounts and deposits from customers	3,791,819	11,537,265	3,927,837	11,623,204
Other borrowed funds and subordinated borrowing	2,442,899	7,542,189	2,123,983	6,498,836
Deposits and balances from banks	273,257	3,206,945	210,580	525,029
Amounts payable under repurchase agreements	2,810	11,613	42,569	514,685
Letters of credit and guarantee	108,670	328,029	98,753	347,625
Debt securities issued	489,005	1,222,057	226,319	307,725
Other	7164	29,777	761	24,923
	<b>7,115,624</b>	<b>23,877,875</b>	<b>6,630,801</b>	<b>19,842,026</b>
<b>Net interest income</b>	<b>4,472,189</b>	<b>13,243,808</b>	<b>3,772,684</b>	<b>10,804,552</b>

## 5 Fee and commission income

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
Credit card maintenance	441,250	1,159,756	336,335	911,217
Money transfers	189,883	509,701	145,605	361,035
Guarantee and letter of credit issuance	53,483	187,757	79,118	239,224
Cash withdrawal, account service and distance system services	173,829	446,542	121,203	334,747
Settlement operations	24,541	56,821	18,500	39,840
Brokerage services	28,072	87,035	35,289	146,113
Other	13680	31,456	12,186	32,689
	<b>924,738</b>	<b>2,479,067</b>	<b>748,235</b>	<b>2,064,866</b>

## 6 Fee and commission expense

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
Guarantee and letter of credit issuance	8,008	32,772	11,223	59,972
Credit card maintenance	175,975	427,015	124,808	288,739
Money transfers	30,034	84,378	27,304	73,901
Other	6,279	21,042	5,618	21,773
	<b>220,296</b>	<b>565,207</b>	<b>168,953</b>	<b>444,385</b>

## 7 Net gain/(loss) on financial instruments at fair value through profit or loss

Net gain/(loss) on financial instruments at fair value through profit or loss includes revaluation of currency and interest rate derivative instruments, which are used for hedging open currency positions.

## 8 Net foreign exchange income

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
Net gain on spot transactions	978,842	2,341,785	654,399	1,781,570
Net gain from revaluation of financial assets and liabilities	1,046,577	1,888,810	38,095	11,102
	<b>2,025,419</b>	<b>4,230,595</b>	<b>692,494</b>	<b>1,792,672</b>



## 9 Other operating income/(expenses)

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
<b>Other operating income</b>				
Income from fines and penalties	402,921	1,066,109	238,799	926,334
Other income	53,212	170,084	95,217	166,266
	<b>456,134</b>	<b>1,236,193</b>	<b>334,016</b>	<b>1,092,600</b>
<b>Other operating expenses</b>				
Expenses on fines and penalties	-	-	-	(10)
Expenses from disposal of fixed assets	-	(58)	-	-
Encashment	65,343	39,084	(11,761)	(36,516)
Trading and brokerage activities	(22,770)	(67,334)	(24,977)	(104,091)
Guarantee payments to Armenian Deposit Guarantee Fund	(118,044)	(307,722)	(67,903)	(205,097)
Software maintenance	(74,285)	(211,173)	(63,853)	(185,993)
Payment system expenses	(128,348)	(348,305)	(93,828)	(265,080)
Other expenses	(193,911)	(502,786)	(97,837)	(245,026)
	<b>(472,015)</b>	<b>(1,398,294)</b>	<b>(360,159)</b>	<b>(1,041,813)</b>

## 10 Impairment (losses) reversals

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
Loans to customers	988,968	3,095,689	1,710,972	3,719,906
Other assets	88,012	139,989	179,156	344,400
	<b>1,076,980</b>	<b>3,235,678</b>	<b>1,890,128</b>	<b>4,064,306</b>

## 11 Other general administrative expenses

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
Operating lease expense	265,822	789,112	272,601	745,244
Advertising and marketing	129,786	464,583	114,220	426,073
Depreciation and amortization	226,221	650,031	190,640	584,924
Repairs and maintenance	75,102	237,086	70,429	178,936
Communications and information services	24,163	78,839	25,582	74,850
Travel expenses	12,265	80,221	11,984	51,578

Security	34,325	96,859	29,772	83,559
Professional services	76,410	100,342	32,437	52,154
Electricity and utilities	23,190	71,589	19,288	66,160
Insurance	7,422	22,743	7,633	22,001
Charity and sponsorship	62,355	74,030	16,752	48,664
Representation expenses	4,818	14,472	3,610	14,542
Office supplies	7,274	22,015	9,155	21,674
Taxes other than on payroll and income	3,694	12,375	4,463	18,491
Other	82,313	282,418	75,418	274,894
	<b>1,035,160</b>	<b>2,996,715</b>	<b>883,984</b>	<b>2,663,744</b>

## 12 Income tax expense

	01/07/2017- 30/09/2017	01/01/2017- 30/09/2017	01/07/2016- 30/09/2016	01/01/2016- 30/09/2016
	AMD'000	AMD'000	AMD'000	AMD'000
<b>Current tax expense</b>				
Current year	257,887	640,887	220,000	220,000
<b>Deferred tax expense</b>				
Deferred taxation movement due to origination and reversal of temporary differences	250,817	738,244	15,853	551,893
<b>Total income tax expense</b>	<b>508,704</b>	<b>1,379,131</b>	<b>235,853</b>	<b>771,893</b>

In 2017 the applicable tax rate for current and deferred tax is 20% (2016: 20%).

### Reconciliation of effective tax rate:

	01/01/2017- 30/09/2017	%	01/01/2016- 30/09/2016	%
	AMD'000		AMD'000	
Profit before tax	6,764,746		4,277,989	
Income tax at the applicable tax rate	1,352,949	20.00%	855,598	20.00%
Non-deductible costs	26,182	0.39%	(83,705)	-1.96%
	<b>1,379,131</b>	<b>20.39%</b>	<b>771,893</b>	<b>18.04%</b>

### (a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 30 September 2017 and as at 31 December 2016.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the periods ended 30 September 2017 and 31 December 2016 are presented as follows:

<b>2017</b>	<b>Balance 1 January 2017 AMD'000</b>	<b>Recognized in profit or loss AMD'000</b>	<b>Recognized in other comprehensive income AMD'000</b>	<b>Balance 30 Sep 2017 AMD'000</b>
Financial instruments at fair value through profit or loss	(102,874)	81,413	-	(21,461)
Available-for-sale financial assets	(76,977)	-	(11,196)	(88,173)
Allowance for other receivables and other provisions	(197,664)	(115,861)	-	(313,525)
Loans to customers	(1,336,197)	(627,728)	-	(1,963,925)
Property and equipment	(45,152)	4,570	-	(40,582)
Other assets	10,500	2,604	-	13,104
Other liabilities	362,234	(57,393)	-	304,841
Other borrowed funds	(56,742)	(25,849)	-	(82,591)
	<b>(1,442,872)</b>	<b>(738,244)</b>	<b>(11,196)</b>	<b>(2,192,312)</b>

<b>2016</b>	<b>Balance 1 January 2016 AMD'000</b>	<b>Recognized in profit or loss AMD'000</b>	<b>Recognized in other comprehensive income AMD'000</b>	<b>Balance 30 Sep 2016 AMD'000</b>
Financial instruments at fair value through profit or loss	20,694	3,075	-	23,769
Available-for-sale financial assets	62,825	-	(125,596)	(62,771)
Allowance for other receivables and other provisions	65,746	(54,582)	-	11,164
Loans to customers	(1,010,351)	(337,796)	-	(1,348,147)
Property and equipment	14,379	10,617	-	24,996
Other assets	13,104	-	-	13,104
Other liabilities	354,359	(173,207)	-	181,152
Other borrowed funds	<b>(479,244)</b>	<b>(551,893)</b>	<b>(125,596)</b>	<b>(1,156,733)</b>

## 13 Cash and cash equivalents

	30/09/17	31/12/16
	AMD'000	AMD'000
<b>Cash on hand</b>	17,849,608	12,826,023
<b>Nostro accounts with the CBA</b>	92,305,448	104,878,940
<b>Nostro accounts with other banks</b>		
- rated AA- to AA+	16,454	17,767
- rated A- to A+	19,946,309	10,310,205
- rated from B- to BBB+	8,344,589	7,026,283
- not rated	4281651.84	221654
<b>Total nostro accounts with other banks</b>	<b>32,589,003</b>	<b>17,575,909</b>
<b>Total cash and cash equivalents</b>	<b>142,744,059</b>	<b>135,280,872</b>

The nostro accounts with the CBA represent balances for settlement activities and also obligatory reserves allocated with CBA. There are no withdrawal restrictions on them and these amounts can be used by the Bank for settlement purposes.

No cash and cash equivalents are impaired or past due. The above ratings are per Fitch rating agency.

As at 30 September 2017 the Bank has one bank (2016: one), whose balances exceed 10% of equity. As at 30 September 2017 the balances of bank was 19,946,308 AMD'000 (as at 31 December 2016 the balances of bank was 7,041,151 AMD'000).

As at 30 September 2017 and 31 December 2016 the balances with the Central Bank of Armenia exceed 10% of equity.

## 14 Financial instruments at fair value through profit or loss

	30/09/17	31/12/16
	AMD'000	AMD'000
<b>Assets</b>		
<b>Debt and other fixed-income instruments</b>		
Government securities of the Republic of Armenia	1,196,847	-
Eurobonds of the Republic of Armenia	809,238	-
<b>Derivative financial instruments</b>		
Interest rate swaps	35,206	40,590
Foreign currency contracts	564,184	3,089,481
	<b>2,605,475</b>	<b>3,130,071</b>
<b>Liabilities</b>		
<b>Derivative financial instruments</b>		
Foreign currency contracts	219,107	2,535,283
	<b>219,107</b>	<b>2,535,283</b>

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

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

### Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 30 September 2017 and 31 December 2016 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss, as appropriate.

	Fair value		Notional amount	
	2017	2016	2017	2016
	AMD'000	AMD'000	AMD'000	AMD'000
Pay fixed in USD, receive floating in USD	35,206	40,590	6,849,961	11,218,609

As at 30 September 2017 the Bank has four interest rate swap contracts, three with USD 15,000,000 initial notional amount and one with USD 10,000,000 initial notional amount (2016: three interest rate swap contracts with USD 15,000,000 notional amount and one with USD 10,000,000 initial notional amount). Under these contracts the Bank pays 2.1350%, 1.3125%, 0.9450% and 1.5850% fixed rates, and receives 6-month USD-LIBOR-ICE floating rates for each contract, respectively. The contractual maturity of outstanding interest rate swap contracts is 2022.

## 15 Available-for-sale financial assets

	30/09/17	31/12/16
	AMD'000	AMD'000
<b>Held by the Bank</b>		
<b>Debt and other fixed-income instruments</b>		
- <b>Government bonds</b>		
Government securities of the Republic of Armenia	7,432,591	7,174,650
Eurobonds of the Republic of Armenia	1,056,340	-
Eurobonds of other countries	2,919,338	1,066,963
- <b>Corporate bonds</b>		
Corporate bonds of foreign companies	-	3,418,111
Corporate bonds of the Republic of Armenia	939,921	642,110
<b>Equity investments</b>		
- Unquoted equity securities at cost	106,458	106,458
	<b>12,454,648</b>	<b>12,408,292</b>

Included in available-for-sale assets are non-quoted equity securities as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Main activity</u>	<u>% Controlled</u>		<u>2017</u>	<u>2016</u>
			<u>2017</u>	<u>2016</u>	<u>AMD'000</u>	<u>AMD'000</u>
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	36,429
Artsakh bank cjsc	Republic of Armenia	Banking	1.06%	1.06%	69,250	69,250
SWIFT	Belgium	Money transfer	0.00%	0.00%	779	779
					<b>106,458</b>	<b>106,458</b>

**(a) Investments without a determinable fair value**

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

## 16 Loans and advances to banks

	<u>30/09/17</u>	<u>31/12/16</u>
	<u>AMD'000</u>	<u>AMD'000</u>
<b>Due from the CBA</b>		
Credit card settlement deposit with the CBA	435,500	1,220,000
<b>Loans and deposits with other banks</b>		
Armenian banks	12,237,076	2,500,839
OECD banks	2,457,197	1,078,322
Foreign other banks	-	54,141
<b>Total loans and deposits with other banks</b>	<b>14,694,273</b>	<b>3,633,302</b>
<b>Total loans and advances to banks</b>	<b>15,129,773</b>	<b>4,853,302</b>

No loans and advances to banks are impaired or past due.

Included in loans and deposits with OECD banks and other foreign banks is AMD 62,193 thousand (2016: AMD 117,053 thousand) which represents deposits pledged for letters of credit, guarantees and credit cards.

### Concentration of loans and advances to banks

As at 30 September 2017 the Bank has one bank (2016: no bank), whose balances exceed 10% of equity. As at 30 September 2017 the balances of bank was 8,623,026 AMD'000

## 17 Amounts receivable under reverse repurchase agreements

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Amounts receivable from medium and small Armenian financial institutions	8,646,697	6,446,797
	<b>8,646,697</b>	<b>6,446,797</b>
	<b>8,646,697</b>	<b>6,446,797</b>

### Collateral

As at 30 September 2017 and 31 December 2016 amounts receivable under reverse repurchase agreements were collateralized by government and non-government securities with fair value of AMD 9,123,316 thousand (2016: 6,814,064 thousand).

## 18 Loans to customers

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Loans to corporate customers</b>		
Loans to large corporates	294,297,855	384,267,796
Loans to small and medium size companies	79,510,698	77,010,316
<b>Total loans to corporate customers</b>	<b>373,808,553</b>	<b>461,278,112</b>
<b>Loans to retail customers</b>		
Mortgage loans	23,071,756	20,051,103
Credit cards	17,634,480	18,403,846
Business loans	927,645	1,043,918
Auto loans	1,860,759	2,043,068
Consumer loans	9,886,702	5,454,847
<b>Total loans to retail customers</b>	<b>53,381,342</b>	<b>46,996,782</b>
<b>Gross loans to customers</b>	<b>427,189,894</b>	<b>508,274,894</b>
Impairment allowance	(10,480,070)	(8,986,372)
<b>Net loans to customers</b>	<b>416,709,825</b>	<b>499,288,522</b>

In the table below loans to corporate customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

	Neither past due nor impaired				
	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired
<b>2017</b>					
<b>Net Loans to corporate customers</b>	30,492,791	317,154,880	-	6,214,826	9,941,945
	Neither past due nor impaired				
	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired
<b>2016</b>					
<b>Net Loans to corporate customers</b>	145,465,084	291,807,706	2,052,570	2,871,395	10,591,029

Movements in the loan impairment allowance by classes of loans to customers for the third quarter of 2017 are as follows:

<b>2017</b>	Loans to corporate customers		Loans to retail customers	Total
	AMD'000			
Balance at the beginning of the year	8,490,328	496,044		8,986,372
Net charge	2,738,216	357,473		3,095,689
Recovery of loans previously written off	26,650	79,116		105,766
Write-offs	(1,251,083)	(456,674)		(1,707,757)
<b>Balance at the end of the year</b>	<b>10,004,111</b>	<b>475,959</b>		<b>10,480,070</b>

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

<b>2016</b>	Loans to corporate customers		Loans to retail customers	Total
	AMD'000			
Balance at the beginning of the year	4,907,173	333,710		5,240,883
Net charge	4,505,096	579,397		5,084,493
Recovery of loans previously written off	188,461	179,374		367,835
Write-offs	(894,856)	(596,437)		(1,491,293)
Disposal of loans	(215,546)	-		(215,546)
<b>Balance at the end of the year</b>	<b>8,490,328</b>	<b>496,044</b>		<b>8,986,372</b>

#### (a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 30 September 2017:



	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
<b>Loans corporate customers</b>				
<b>Loans to large corporates</b>				
Loans without individual signs of impairment:				
- not overdue	281,740,275	2,831,052	278,909,223	1.00%
<b>Total loans without individual signs of impairment</b>	<b>281,740,275</b>	<b>2,831,052</b>	<b>278,909,223</b>	<b>1.00%</b>
<b>Loans with individual signs of impairment</b>				
Not impaired loans:				
- overdue more than 91 days and less than 180 days	891,798	10,077	881,721	1.13%
- overdue more than 270 days	707,690	7,896	699,794	1.13%
Impaired loans:				
- not overdue	5,812,995	785,033	5,027,962	13.50%
- overdue more than 270 days	5,145,097	3,406,080	1,739,017	66.20%
<b>Total loans with individual signs of impairment</b>	<b>12,557,580</b>	<b>4,209,087</b>	<b>8,348,493</b>	<b>33.52%</b>
<b>Total loans to large corporates</b>	<b>294,297,855</b>	<b>7,040,139</b>	<b>287,257,716</b>	<b>2.39%</b>
<b>Loans to small and medium size companies</b>				
Loans without individual signs of impairment:				
- not overdue	69,782,746	1,044,298	68,738,448	1.50%
- overdue less than 30 days	1,548,093	23,841	1,524,253	1.54%
- overdue more than 31 days and less than 90 days	2,113,369	32,546	2,080,823	1.54%
<b>Total loans without individual signs of impairment</b>	<b>73,444,209</b>	<b>1,100,685</b>	<b>72,343,524</b>	<b>1.50%</b>
<b>Loans with individual signs of impairment</b>				
Not impaired loans				
- overdue more than 91 days and less than 180 days	14,753	227	14,526	1.54%
- overdue more than 181 days and less than 270 days	653,302	10,061	643,241	1.54%
- overdue more than 270 days	376,263	5,794	370,468	1.54%
Impaired loans:				
- not overdue	436,393	97,724	338,669	22.39%
- overdue more than 31 days and less than 90 days	33,402	21,339	12,063	63.89%
- overdue more than 91 days and less than 180 days	196,858	35,993	160,865	18.28%
- overdue more than 181 days and less than 270 days	542,366	133,141	409,225	24.55%
- overdue more than 270 days	3,813,151	1,559,007	2,254,145	40.88%
<b>Total loans with individual signs of impairment</b>	<b>6,066,489</b>	<b>1,863,287</b>	<b>4,203,202</b>	<b>30.71%</b>
<b>Total loans to small and medium size companies</b>	<b>79,510,698</b>	<b>2,963,972</b>	<b>76,546,726</b>	<b>3.73%</b>
<b>Total loans to corporate customers</b>	<b>373,808,553</b>	<b>10,004,111</b>	<b>363,804,442</b>	<b>2.68%</b>

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
<b>Loans to retail customers</b>				
<b>Mortgage loans</b>				
- not overdue	22,230,801	44,462	22,186,340	0.20%
- overdue less than 30 days	111,916	9,416	102,500	8.41%
- 31-90 days overdue	127,162	33,212	93,951	26.12%
- 91-180 days overdue	34,235	68	34,166	0.20%
- 181-270 days overdue	16,252	1,435	14,817	8.83%
- overdue more than 270 days	551,389	100,823	450,567	18.29%
<b>Total mortgage loans</b>	<b>23,071,756</b>	<b>189,416</b>	<b>22,882,340</b>	<b>0.82%</b>
<b>Credit cards</b>				
- not overdue	16,068,660	42,793	16,025,868	0.27%
- overdue less than 30 days	160,680	15,247	145,433	9.49%
- 31-90 days overdue	61,468	24,486	36,982	39.83%
- 91-180 days overdue	25,918	10,560	15,358	40.74%
- 181-270 days overdue	32,311	18,624	13,688	57.64%
- overdue more than 270 days	1,285,443	4,135	1,281,308	0.32%
<b>Total credit cards</b>	<b>17,634,480</b>	<b>115,844</b>	<b>17,518,637</b>	<b>0.66%</b>
<b>Business loans</b>				
- not overdue	496,781	7,551	489,230	1.52%
- overdue less than 30 days	2,941	45	2,897	1.52%
- 31-90 days overdue	102,383	1,556	100,827	1.52%
- overdue more than 270 days	325,540	8,292	317,248	2.55%
<b>Total business loans</b>	<b>927,645</b>	<b>17,444</b>	<b>910,201</b>	<b>1.88%</b>
<b>Auto loans</b>				
- not overdue	1,812,204	3,624	1,808,580	0.20%
- overdue less than 30 days	12,046	842	11,204	6.99%
- 31-90 days overdue	9,232	659	8,573	7.14%
- 91-180 days overdue	18,630	37	18,593	0.20%
- 181-270 days overdue	8,647	17	8,630	0.20%
<b>Total auto loans</b>	<b>1,860,759</b>	<b>5,180</b>	<b>1,855,579</b>	<b>0.28%</b>
<b>Consumer loans</b>				
- not overdue	9,597,898	23,668	9,574,229	0.25%
- overdue less than 30 days	34,293	6,286	28,007	18.33%
- 31-90 days overdue	14,170	2,989	11,181	21.09%
- 91-180 days overdue	36,102	8,111	27,991	22.47%
- 181-270 days overdue	5,950	1,542	4,408	25.92%
- overdue more than 270 days	198,289	105,479	92,810	53.19%
<b>Total consumer loans</b>	<b>9,886,702</b>	<b>148,076</b>	<b>9,738,626</b>	<b>1.50%</b>
<b>Total loans to retail customers</b>	<b>53,381,342</b>	<b>475,959</b>	<b>52,905,383</b>	<b>0.89%</b>
<b>Total loans to customers</b>	<b>427,189,894</b>	<b>10,480,070</b>	<b>416,709,825</b>	<b>2.45%</b>

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
<b>Loans corporate customers</b>				
<b>Loans to large corporates</b>				
Loans without individual signs of impairment:				
- not overdue	371,417,729	2,417,464	369,000,265	0.65%
<b>Total loans without individual signs of impairment:</b>	<b>371,417,729</b>	<b>2,417,464</b>	<b>369,000,265</b>	<b>0.65%</b>
<b>Loans with individual signs of impairment</b>				
Not impaired loans:				
- not overdue	1,739,322	18,263	1,721,059	1.05%
- overdue more than 270 days	742,450	7,795	734,655	1.05%
Impaired loans:				
- not overdue	4,162,141	277,347	3,884,794	6.66%
- overdue more than 181 days and less than 270 days	755,553	343,743	411,810	45.50%
- overdue more than 270 days	5,450,600	2,611,438	2,839,162	47.91%
<b>Total loans with individual signs of impairment</b>	<b>12,850,066</b>	<b>3,258,586</b>	<b>9,591,480</b>	<b>25.36%</b>
<b>Total loans to large corporates</b>	<b>384,267,795</b>	<b>5,676,050</b>	<b>378,591,745</b>	<b>1.48%</b>
<b>Loans to small and medium size companies</b>				
Loans without individual signs of impairment:				
- not overdue	69,309,563	1,037,038	68,272,525	1.50%
- overdue less than 30 days	567,198	8,734	558,464	1.54%
- overdue more than 31 days and less than 90 days	769,187	11,846	757,341	1.54%
- overdue more than 91 days and less than 180 days	3,793	58	3,735	1.53%
<b>Total loans without individual signs of impairment</b>	<b>70,649,741</b>	<b>1,057,676</b>	<b>69,592,065</b>	<b>1.50%</b>
<b>Loans with individual signs of impairment</b>				
Not impaired loans				
- not overdue	336,642	5,131	331,511	1.52%
- overdue more than 31 days and less than 90 days	227,553	3,504	224,049	1.54%
- overdue more than 91 days and less than 180 days	85,930	1,377	84,553	1.60%
- overdue more than 181 days and less than 270 days	17,237	265	16,972	1.54%
- overdue more than 270 days	499,315	7,689	491,626	1.54%
Impaired loans:				
- not overdue	544,082	193,350	350,732	35.54%
- overdue more than 31 days and less than 90 days	29,384	9,253	20,131	31.49%
- overdue more than 91 days and less than 180 days	1,029,680	219,879	809,801	21.35%
- overdue more than 181 days and less than 270 days	564,277	129,807	434,470	23.00%
- overdue more than 270 days	3,026,476	1,186,347	1,840,129	39.20%
<b>Total loans with individual signs of impairment:</b>	<b>6,360,576</b>	<b>1,756,602</b>	<b>4,603,974</b>	<b>27.62%</b>
<b>Total loans to small and medium size companies</b>	<b>77,010,317</b>	<b>2,814,278</b>	<b>74,196,039</b>	<b>3.65%</b>
<b>Total loans to corporate customers</b>	<b>461,278,112</b>	<b>8,490,328</b>	<b>452,787,784</b>	<b>1.84%</b>

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
<b>Loans to retail customers</b>				
<b>Mortgage loans</b>				
- not overdue	19,186,161	48,445	19,137,716	0.25%
- overdue less than 30 days	83,002	7,045	75,957	8.49%
- 31-90 days overdue	80,329	15,462	64,867	19.25%
- 91-180 days overdue	410,846	29,403	381,443	7.16%
- 181-270 days overdue	21,469	1,372	20,097	6.39%
- more than 270 days	269,296	74,489	194,807	27.66%
<b>Total mortgage loans</b>	<b>20,051,103</b>	<b>176,216</b>	<b>19,874,887</b>	<b>0.88%</b>
<b>Credit cards</b>				
- not overdue	16,655,030	35,703	16,619,327	0.21%
- overdue less than 30 days	59,964	9,041	50,923	15.08%
- 31-90 days overdue	102,483	26,067	76,416	25.43%
- 91-180 days overdue	1,314,542	29,524	1,285,018	2.25%
- 181-270 days overdue	133,233	60,807	72,426	45.64%
- more than 270 days	138,594	41,494	97,100	29.94%
<b>Total credit cards</b>	<b>18,403,846</b>	<b>202,636</b>	<b>18,201,210</b>	<b>1.10%</b>
<b>Business loans</b>				
- not overdue	702,500	14,050	688,450	2.00%
- 181-270 days overdue	336,424	6,728	329,696	2.00%
- more than 270 days	4,994	1,240	3,754	24.82%
<b>Total business loans</b>	<b>1,043,918</b>	<b>22,018</b>	<b>1,021,900</b>	<b>2.11%</b>
<b>Auto loans</b>				
- not overdue	1,975,608	3,951	1,971,657	0.20%
- overdue less than 30 days	27,600	1,370	26,230	4.96%
- 31-90 days overdue	23,413	1,162	22,251	4.96%
- 91-180 days overdue	1,167	2	1,165	0.20%
- 181-270 days overdue	15,280	1,420	13,860	9.29%
<b>Total auto loans</b>	<b>2,043,068</b>	<b>7,905</b>	<b>2,035,163</b>	<b>0.39%</b>
<b>Consumer loans</b>				
- not overdue	5,191,378	16,367	5,175,011	0.32%
- overdue less than 30 days	14,058	1,799	12,259	12.80%
- 31-90 days overdue	1,240	159	1,081	12.80%
- 91-180 days overdue	3,711	664	3,047	17.89%
- 181-270 days overdue	48,441	9,791	38,650	20.21%
- more than 270 days	196,019	58,437	137,582	29.81%
<b>Total consumer loans</b>	<b>5,454,847</b>	<b>87,217</b>	<b>5,367,630</b>	<b>1.60%</b>
<b>Total loans to retail customers</b>	<b>46,996,782</b>	<b>495,992</b>	<b>46,500,790</b>	<b>1.06%</b>
<b>Total loans to customers</b>	<b>508,274,894</b>	<b>8,986,372</b>	<b>499,288,522</b>	<b>1.77%</b>

**(b) Key assumptions and judgments for estimating the loan impairment**

**(i) Loans to corporate customers**

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

overdue payments under the loan agreement;  
significant difficulties in the financial conditions of the borrower;  
deterioration in business environment or negative changes in the borrower's markets.

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

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

- ▶ historic annual loss rate is applied for performing loans to corporate customers and small and medium size companies;
- ▶ recoverable amount for loans with individual signs of impairment is calculated based on following assumptions:
  - 1) a discount of between 20% and 30% to the collateral value;
  - 2) a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

***(ii) Loans to retail customers***

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- ▶ loss migration rates are estimated based on the historic loss migration pattern for the past 24 months. Loss migration rates are applied in respect of mortgage, credit card, auto and consumer loans;
- ▶ historic annual loss rate is estimated based on average loan write-off statistics and is applied in respect of performing business loans to individuals.

**(c) Analysis of collateral**

***(i) Loans to corporate customers***

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

The 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, inventory and trade receivables;  
cash collateral

For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

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

***(ii) Loans to retail customers***

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Business loans are secured by real estate and corporate shares. Auto loans are secured by the underlying cars. As of 30 September 2017 consumer loans are secured by real estate, movable property, salary, cash and guarantees

***(iii) Repossessed collateral***

During 2017, the Bank obtained certain assets by taking possession of collateral for loans to corporate customers amounting AMD 624,431 thousand (2016: AMD 244,754 thousand). As at 30 September 2017 the repossessed collateral comprise real estate and is classified as assets held for sale or other assets.

The Bank's intention is to sell these assets as soon as it is practicable.

**(d) Industry and geographical analysis of the loan portfolio**

Loans to customers were issued to customers who operate in the following economic sectors:

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Wholesale trade	72,439,858	47,417,214
Real estate	44,667,055	50,249,429
Finance and investment	43,481,774	77,261,906
Construction	31,433,021	84,189,991
Mining/Metallurgy	27,327,175	28,408,361
Hotel service	25,871,831	25,468,851
Agriculture, forestry and timber	25,773,974	23,843,777
Food and beverage	18,203,002	20,163,246
Power generation	17,191,428	25,620,351
Retail trade	16,909,185	17,034,146
Communication services	14,956,610	22,310,945
Manufacturing	13,099,835	9,608,698
Transportation	8,284,474	10,171,744
Municipal authorities	-	160,379
Other	14,169,332	19,369,074
Loans to retail customers	53,381,342	46,996,782
	<b>427,189,894</b>	<b>508,274,894</b>
Impairment allowance	(10,480,070)	(8,986,372)
	<b>416,709,825</b>	<b>499,288,522</b>

The geographical concentration of Bank's loans to corporate customers (net loans) is set out below:

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Armenia	249,345,437	266,046,599
OECD and EU	61,908,566	141,973,028
Other foreign countries	45,215,974	44,768,157
	<b>356,469,977</b>	<b>452,787,784</b>

**(e) Significant credit exposures**

As at 30 September 2017 the Bank has fourteen borrowers or groups of connected borrowers (2016: twelve), whose loan balances exceed 10% of equity. The gross value of these loans as at 30 September 2017 is AMD 134,065,267 thousand (31 December 2016: AMD 108,667,191 thousand).

**(f) Loan maturities**

The maturity of the loan portfolio is presented in note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 19 Receivables from letters of credit

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Receivables from letters of credit of other organizations	2,060,686	7,722,748
Impairment allowance	(4,121)	(15,445)
	<b>2,056,565</b>	<b>7,707,303</b>

As at 30 September 2017 the Bank has no customer (2016: none), whose balances exceed 10% of equity.

Movements in impairment allowance for the third quarter of 2017 and for the year of 2016 are as follows:

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Balance at the beginning of the year	15,445	1,246,423
Net charge	(11,324)	280,364
Write-offs	-	(1,511,342)
<b>Balance at the end of the year</b>	<b>4,121</b>	<b>15,445</b>

## 20 Receivables from finance leases

	30/09/17 AMD'000	31/12/16 AMD'000
<b>Gross investment in finance leases receivable:</b>		
Less than one year	881,939	533,878
Between one and five years	726,843	1,158,994
More than five years	765,169	1,144,665
	<b>2,373,951</b>	<b>2,837,537</b>
Unearned finance income	(589,354)	(735,821)
Impairment allowance	(139,806)	(61,694)
<b>Net investment in finance leases</b>	<b>1,644,791</b>	<b>2,040,022</b>
 <b>The net investment in finance leases comprises:</b>		
Less than one year	610,321	482,222
Between one and five years	503,949	900,996
More than five years	530,522	656,804
	<b>1,644,791</b>	<b>2,040,022</b>

### (a) Quality analysis of finance leases

The following table provides information on the quality analysis of finance leases as at 30 September 2017:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
<b>Finance leases</b>				
- not overdue	1,295,398	59,747	1,235,651	4.61%
- overdue less than 30 days	36,053	18,456	17,597	51.19%
- 31-90 days overdue	52,210	804.03	51,406	1.54%
- 91-180 days overdue	242,791	3,739	239,052	1.54%
- 181-270 days overdue	153,656	54,144	99,512	35.24%
- more than 270 days	4,489	2,915	1,574	64.94%
<b>Total finance leases</b>	<b>1,784,597</b>	<b>139,806</b>	<b>1,644,791</b>	<b>7.83%</b>

The following table provides information on the quality analysis of finance leases as at 31 December 2016:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
<b>Finance leases</b>				
- not overdue	2,037,211	30,128	2,007,083	1.48%
- 31-90 days overdue	24881	409	24,472	1.64%
- more than 270 days	39169	31,157	8,467	78.63%
<b>Total finance leases</b>	<b>2,101,261</b>	<b>61,694</b>	<b>2,040,022</b>	<b>2.94%</b>



**(b) Concentration of receivables from finance leases**

As at 30 September 2017 the Bank has no customers whose balances exceed 10% of equity (2016: nil).

**(c) Movement in impairment allowance**

Movements in impairment allowance for the third quarter of 2017 and for the year of 2016 are as follows:

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Balance at the beginning of the year	61,694	42,009
Net charge	86,909	30,875
Write-offs	(8,797)	(11,190)
<b>Balance at the end of the year</b>	<b>139,806</b>	<b>61,694</b>

**(d) Finance lease maturities**

The maturity of the Bank's finance lease portfolio is presented in note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

**(e) Geographical analysis of the finance lease portfolio**

The majority of finance leases are with customers located within the Republic of Armenia.

## **21 Receivables from factoring**

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Receivables from factoring	4,269,493	4,191,244
Impairment allowance	(8,539)	(8,382)
	<b>4,260,954</b>	<b>4,182,862</b>

As at 30 September 2017 the Bank has no customers whose balances exceed 10% of equity (2016: nil).

As at 30 September 2017 the Bank has no impaired or overdue receivables from factoring.

Movements in impairment allowance the third quarter of 2017 and for the year of 2016 are as follows:

	30/09/17 AMD'000	31/12/16 AMD'000
Balance at the beginning of the year	8,382	10,918
Net charge	157	716
Write-offs	-	(3,252)
<b>Balance at the end of the year</b>	<b>8,539</b>	<b>8,382</b>

## 22 Held-to-maturity investments

	30/09/17 AMD'000	31/12/16 AMD'000
<b>Held by the Bank</b>		
<b>Debt and other fixed-income instruments</b>		
<b>- Government bonds</b>		
Government securities of the Republic of Armenia	28,103,987	28,194,902
Eurobonds of the Republic of Armenia	8,470,574	6,967,102
Government securities of other countries	10,051,373	-
<b>- Corporate bonds</b>		
Corporate bonds of foreign companies	-	803,989
Other	1,165,834	289,649
	<b>47,791,768</b>	<b>36,255,642</b>
<b>Pledged under sale and repurchase agreements</b>		
Government securities of the Republic of Armenia	1,023,483	-
	<b>1,023,483</b>	<b>-</b>

## 23 Property, equipment and intangible assets

AMD'000	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
<b>Cost/Revalued amount</b>						
Balance at 1 January 2017	1,676,966	3,300,113	609,279	256,026	2,068,706	7,911,089
Additions	1,247,879	662,976	337,819	39	345,073	2,593,787
Disposals/write-offs	-	(14,555)	(330)	(50,554)	-	(65,438)
<b>Balance at 30 Sep 2017</b>	<b>2,924,845</b>	<b>3,948,534</b>	<b>946,769</b>	<b>205,511</b>	<b>2,413,779</b>	<b>10,439,438</b>
<b>Depreciation and amortization</b>						
Balance at 1 January 2017	917,206	2,076,344	404,947	100,100	761,254	4,259,851
Depreciation and amortization for the year	179,358	235,192	30,953	18,821	185,707	650,031
Disposals/write-offs	-	(14,550)	(322)	(50,517)	-	(65,390)
<b>Balance at 30 Sep 2017</b>	<b>1,096,564</b>	<b>2,296,985</b>	<b>435,578</b>	<b>68,404</b>	<b>946,961</b>	<b>4,844,492</b>
<b>Carrying amount At 30 Sep 2017</b>	<b>1,828,282</b>	<b>1,651,549</b>	<b>511,191</b>	<b>137,108</b>	<b>1,466,818</b>	<b>5,594,946</b>

AMD'000	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
<b>Cost/Revalued amount</b>						
Balance at 1 January 2016	1,668,483	2,962,100	578,903	180,789	1,568,589	6,958,864
Additions	142,492	498,347	82,686	150,723	500,117	1,374,365
Disposals/write-offs	(134,009)	(160,334)	(52,310)	(75,486)	-	(422,139)
<b>Balance at 31 December 2016</b>	<b>1,676,966</b>	<b>3,300,113</b>	<b>609,279</b>	<b>256,026</b>	<b>2,068,706</b>	<b>7,911,090</b>
<b>Depreciation and amortization</b>						
Balance at 1 January 2016	772,770	1,920,098	382,172	160,660	527,461	3,763,161
Depreciation and amortization for the year	173,058	294,372	62,346	14,926	233,792	778,494
Disposals/write-offs	(28,622)	(138,126)	(39,570)	(75,486)	-	(281,804)
<b>Balance at 31 December 2016</b>	<b>917,206</b>	<b>2,076,344</b>	<b>404,948</b>	<b>100,100</b>	<b>761,253</b>	<b>4,259,851</b>
<b>Carrying amount At 31 December 2016</b>	<b>759,760</b>	<b>1,223,769</b>	<b>204,331</b>	<b>155,926</b>	<b>1,307,453</b>	<b>3,651,239</b>

There are no capitalized borrowing costs related to the acquisition or construction of property or equipment during 2017 (2016: nil).

## 24 Other assets

	30/09/17	31/12/16
	AMD'000	AMD'000
Brokerage accounts	245,444	115,385
Receivables from banking services	515,292	396,889
Restricted accounts with clearing houses	347,197	345,624
<b>Total other financial assets</b>	<b>1,107,933</b>	<b>857,898</b>
Prepayments to suppliers	2,294,411	479,686
Repossessed assets	1,620,104	1,118,947
Small value assets	111,498	55,051
Other	287,958	23,045
Impairment allowance	(76,281)	(89,162)
<b>Total other non-financial assets</b>	<b>4,237,690</b>	<b>1,587,567</b>
<b>Total other assets</b>	<b>5,345,623</b>	<b>2,445,465</b>

Movements in the impairment allowance for other non-financial assets for the third quarter of 2017 and for the year of 2016 are as follows:

	30/09/17	31/12/16
	AMD'000	AMD'000
Balance at the beginning of the year	89,162	65,522
Net charge	64,247	(2,744)
Write-offs	(77,128)	26,384
<b>Balance at the end of the year</b>	<b>76,281</b>	<b>89,162</b>

## 25 Deposits and balances from banks

	30/09/17	31/12/16
	AMD'000	AMD'000
Short term loans and term deposits from commercial banks	13,855,335	1,637,334
Long term loans and term deposits from commercial banks	1,875,140	53,267,356
Borrowings from CBA (through international programs)	7,609,506	8,032,191
Liabilities for letters of credit	8,786,244	8,664,321
Vostro accounts	215,640	233,680
	<b>32,341,865</b>	<b>71,834,882</b>

As at 30 September 2017 the Bank has three banks (2016: two banks), whose balances exceed 10% of equity. The gross value of the balances as at 30 September 2017 is AMD 26,061,405 thousand (2016: AMD 61,299,548 thousand).

**(a) Borrowings from CBA**

According to the agreement the CBA provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the “Directing Office of the “German Armenian Foundation” program”.

## 26 Current accounts and deposits from customers

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Current accounts and demand deposits		
- Retail	40,326,651	32,809,388
- Corporate	152,569,165	155,773,778
Term deposits		
- Retail	127,012,486	121,592,267
- Corporate	75,811,987	104,433,253
	<b>395,720,289</b>	<b>414,608,686</b>

As at 30 September 2017, the Bank has five customers (31 December 2016: eight customers) whose balances exceed 10% of equity. The gross value of these balances as 30 September 2017 is AMD 83,230,595 thousand (31 December 2016: AMD 127,255,616 thousand).

## 27 Debt securities issue

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Promissory notes	9,594,486	9,703,138
Domestic bonds issued	25,986,058	8,421,362
	<b>35,580,544</b>	<b>18,124,500</b>

In 2016 Bank placed USD denominated promissory notes with four Luxembourg-based funds via its investment manager responsibility Investments AG in amount of USD 20,000,000 with maturity in 2021. As at 30 September 2017 carrying value of the promissory notes is AMD 9,594,486 thousand.

During the second quarter of 2016 the Bank issued USD denominated bonds with nominal

amount of USD 15,000,000 in Armenia with maturity in 2018. As at 30 September 2017 carrying value of the bonds is AMD 7,270,373 thousand.

During the fourth quarter of 2016 the Bank also issued USD denominated debt securities amounting USD 5 million in Armenia with maturity in first quarter of 2019. As at 30 September 2017 carrying value of the bonds is AMD 2,407,466 thousand.

During the fourth quarter of 2016 the Bank also issued and placed AMD denominated debt securities amounting AMD 1 billion in Armenia with maturity in fourth quarter of 2018. As at 30 September 2017 carrying value of the bonds is AMD 1,017,966 thousand.

During the first quarter of 2017 the Bank issued USD denominated debt securities amounting USD 15 million in Armenia with maturity in second quarter of 2019. As at 30 September 2017 carrying value of the bonds is AMD 7,243,311 thousand.

During the second quarter of 2017 the Bank issued USD denominated debt securities amounting USD 10 million in Armenia with maturity in second quarter of 2019, which were fully placed as at 30 September 2017: As at 30 September 2017 carrying value of the bonds is AMD 4,810,996 thousand.

During the third quarter of 2017 the Bank issued AMD and EUR denominated debt securities amounting AMD 1.5 billion and EUR 5 million in Armenia with maturity in third quarter of 2018 and fourth quarter of 2019 accordingly. As at 30 September 2017 AMD 1.5 billion and EUR 3 million securities were placed, which comprise 100% and 60% of issuance. As at 30 September 2017 carrying value of the bonds is 1,529,589 and 1,706,357 thousand AMD accordingly.

Bonds issued by the Bank are listed in Nasdaq OMX Armenia stock exchange.

## 28 Other borrowed funds and subordinated borrowings

	30/09/17	31/12/16
	AMD'000	AMD'000
Borrowings from international and other financial institutions	87,685,448	102,303,900
Borrowings from Government of Armenia	-	431,139
	<b>87,685,448</b>	<b>102,735,039</b>
Subordinated borrowings	<b>39,565,571</b>	<b>40,811,255</b>

### (a) Concentration of borrowings from international financial institutions

As at 30 September 2017, the Bank has eight financial institutions (31 December 2016: eight), whose balances exceed 10% of equity. These balances as at 30 September 2017 are AMD 106,732,919 thousand (31 December 2016: AMD 127,057,569 thousand).

### (b) Borrowings from the Government of Armenia

The borrowings from the Government of Armenia include amounts lent under an agreement with the CBA (acting as the agent of the Government of Armenia) and the Bank. According to the agreement the CBA provides borrowings to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the “Directing Office of the “German Armenian Foundation” program”.

The borrowings are in AMD, bear interest rates of 7.0-7.8%, are granted for period of up to five years and are to be repaid at maturity.

**(c) Subordinated borrowing**

As at 30 September 2017 subordinated borrowing represents:

- Borrowing received from a related party (AMD 5,764,329 thousand) maturing on 11 January 2021.  
 The lender has right to demand to transform the loan or any part of it, including accrued interest, into the share capital of the Bank through issuance of additional shares.
- Borrowing received from other financial institution (AMD 9,608,496 thousand) maturing on 23 September 2020.
- Borrowing received from international financial institutions (AMD 24,192,746 thousand) maturing on 11 January 2022.

In case of bankruptcy, the repayment of the subordinated borrowing will be made after repayment in full of all other liabilities of the Bank.

**(d) Covenants**

The Bank is required to meet certain covenants in connection with borrowing agreements.

**29 Other liabilities**

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Payables to staff	1,501,405	1,725,164
Accrued expenses	673,149	505,115
Dividend payable	1,241,277	-
Other financial liabilities	950,878	543,468
<b>Total other financial liabilities</b>	<b>4,366,709</b>	<b>2,773,747</b>
Deferred income	5,561	10,136
Other taxes payable	39,478	89,255
<b>Total other non-financial liabilities</b>	<b>45,039</b>	<b>99,391</b>
<b>Total other liabilities</b>	<b>4,411,749</b>	<b>2,873,138</b>

## **30 Share capital and treasury shares**

### **(a) Issued capital and share premium**

The authorized, issued and outstanding share capital comprises 100,273 ordinary shares (2016: 100,273). All shares have a nominal value of AMD 320 thousand.

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

### **(b) Nature and purpose of reserves**

#### *Revaluation reserve for available-for-sale financial assets*

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

### **(c) Dividends**

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

During the 2017 the Bank has accrued AMD 1,241,277 dividends (2016: AMD 1,685,286 thousand paid).

## **31 Risk management**

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

### **(a) Risk management policies and procedures**

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.



Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Center monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

**(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

**(i) Interest rate risk**

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

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Asset and Liabilities Department in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is as follows:

<b>AMD'000</b>	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing or overdue</i>	<i>Carrying amount</i>
<b>30-Sep-17</b>							
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	-	142,744,059	142,744,059
Available-for-sale financial assets	-	-	8,193	8,042,574	4,297,421	106,460	12,454,648
Loans and advances to banks	14,632,080	-	-	-	-	497,693	15,129,773
Amounts receivable under reverse repurchase agreements	8,646,697	-	-	-	-	-	8,646,697
Loans to customers	26,816,207	44,268,874	40,081,246	219,152,801	71,442,246	14,948,451	416,709,825
Receivables from letters of credit	496,628	440,238	273,713	845,985	-	-	2,056,565
Receivables from finance leases	157,966	91,133	195,470	659,553	540,669	-	1,644,791
Receivables from factoring	1,047,052	3,213,902	-	-	-	-	4,260,954
Held-to-maturity investments	6,605,812	3,784,868	6,374,892	29,785,705	2,263,975	-	48,815,252
	<b>58,402,443</b>	<b>51,799,015</b>	<b>46,933,514</b>	<b>258,486,619</b>	<b>78,544,312</b>	<b>158,296,663</b>	<b>652,462,564</b>
<b>Liabilities</b>							
Deposits and balances from banks	(10,390,628)	(892,011)	(10,698,149)	(9,200,714)	(1,160,364)	-	(32,341,865)
Amounts payable under repurchase agreements	(1,042,283)	-	-	-	-	-	(1,042,283)
Current accounts and deposits from customers	(49,983,583)	(41,073,048)	(60,641,081)	(51,053,622)	(73,139)	(192,895,816)	(395,720,289)
Debt securities issue	(9,828,795)	(29,589)	(8,676,150)	(17,046,010)	-	-	(35,580,544)
Subordinated borrowings	-	(33,801,242)	-	(5,764,329)	-	-	(39,565,571)
Other borrowed funds	(58,201,809)	(29,414,465)	(2,663)	(32,768)	(33,743)	-	(87,685,448)
	<b>(129,447,098)</b>	<b>(105,210,355)</b>	<b>(80,018,043)</b>	<b>(83,097,442)</b>	<b>(1,267,246)</b>	<b>(192,895,816)</b>	<b>(591,936,000)</b>
Effect of derivatives	6,849,961	(2,337,685)	(1,032,931)	(3,479,345)	-	-	-
<b>Net position</b>	<b>(64,194,694)</b>	<b>(55,749,026)</b>	<b>(34,117,460)</b>	<b>171,909,831</b>	<b>77,277,065</b>	<b>(34,599,153)</b>	<b>60,526,564</b>

*Ameriabank cjsc*  
*Notes to, and forming part of, the financial statements for the third quarter 2017*

<b>AMD'000</b>	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing or overdue</i>	<i>Carrying amount</i>
<b>31-Dec-16</b>							
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	-	135,280,872	135,280,872
Available-for-sale financial assets	3,418,111	1,542,423	49,967	6,794,780	496,553	106,458	12,408,292
Loans and advances to banks	3,516,249	-	-	-	-	1,337,053	4,853,302
Amounts receivable under reverse repurchase agreements	6,446,797	-	-	-	-	-	6,446,797
Loans to customers	49,987,719	70,035,996	63,011,550	239,247,172	65,826,585	11,179,500	499,288,522
Receivables from letters of credit	2,591,904	749,057	1,640,657	2,725,685	-	-	7,707,303
Receivables from finance leases	123,519	118,237	240,466	900,996	656,804	-	2,040,022
Receivables from factoring	2,841,855	1,341,007	-	-	-	-	4,182,862
Held-to-maturity investments	13,258,091	8,148,865	675,060	14,031,035	142,591	-	36,255,642
	<b>82,184,245</b>	<b>81,935,585</b>	<b>65,617,700</b>	<b>263,699,668</b>	<b>67,122,533</b>	<b>147,903,883</b>	<b>708,463,614</b>
<b>Liabilities</b>							
Deposits and balances from banks	(3,724,091)	(893,022)	(4,516,288)	(60,870,822)	(1,830,659)	-	(71,834,882)
Current accounts and deposits from customers	(74,215,296)	(31,244,657)	(67,043,411)	(53,453,037)	(69,119)	(188,583,166)	(414,608,686)
Debt securities issue	(109,244)	(24,650)	-	(17,990,606)	-	-	(18,124,500)
Subordinated borrowings	(35,010,155)	-	-	(5,801,100)	-	-	(40,811,255)
Other borrowed funds	(59,734,053)	(42,510,773)	(396,597)	(47,470)	(46,146)	-	(102,735,039)
	<b>(172,792,839)</b>	<b>(74,673,102)</b>	<b>(71,956,296)</b>	<b>(138,163,035)</b>	<b>(1,945,924)</b>	<b>(188,583,166)</b>	<b>(648,114,362)</b>
Effect of derivatives	9,293,848	-	(2,364,707)	(6,049,248)	(879,893)	-	-
<b>Net position</b>	<b>(81,314,746)</b>	<b>7,262,483</b>	<b>(8,703,303)</b>	<b>119,487,385</b>	<b>64,296,716</b>	<b>(40,679,283)</b>	<b>60,349,252</b>

**Average effective interest rates**

The table below displays average effective interest rates for interest bearing assets and liabilities as at 30 September 2017 and 31 December 2016.

	<b>2017</b>			<b>2016</b>		
	<b>Average effective interest rate, %</b>			<b>Average effective interest rate, %</b>		
	<b>AMD</b>	<b>USD</b>	<b>Other currencies</b>	<b>AMD</b>	<b>USD</b>	<b>Other currencies</b>
<b>Interest bearing assets</b>						
Available-for-sale financial assets	11.7%	3.7%	-	13.3%	1.9%	-
Loans and advances to banks	0.0%	2.5%	0.8%	6.2%	-	-
Amounts receivable under reverse repurchase agreements	6.1%	2.8%	-	6.9%	3.5%	-
Loans to customers	16.2%	11.1%	9.2%	12.1%	8.2%	10.0%
Receivables from finance leases	14.8%	7.3%	12.0%	14.7%	8.8%	12.0%
Receivables from factoring	15.8%	9.5%	14.0%	15.6%	10.8%	-
Held-to-maturity investments	9.8%	2.8%	0.0%	8.6%	5.0%	-
<b>Interest bearing liabilities</b>						
Deposits and balances from banks	6.9%	3.0%	1.0%	9.7%	2.7%	0.9%
Debt securities issue	9.7%	5.7%	3.3%	10.8%	5.6%	-
Term deposits	11.6%	5.0%	3.2%	12.1%	5.8%	5.9%
Subordinated borrowings	-	8.5%	-	0.0%	8.1%	-
Other borrowed funds	9.2%	6.4%	-	9.0%	6.6%	-

**(ii) Currency risk**

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 September 2017:

	USD	EUR	Other currencies	Total
2017	AMD'000	AMD'000	AMD'000	AMD'000
<b>ASSETS</b>				
Cash and cash equivalents	31,607,058	34,645,047	2,535,755	68,787,860
Banking standardized bullions of precious metals	-	-	656,536	656,536
Financial instruments at fair value through profit or loss	427,712	173,426	-	601,138
Available-for-sale financial assets	4,461,232	-	-	4,461,232
Loans and advances to banks	13,454,916	2,467,240	133,112	16,055,268
Amounts receivable under reverse repurchase agreements	1,197,802	-	-	1,197,802
Loans to customers	318,308,776	28,710,840	1,442,714	348,462,330
Receivables from letters of credit	1,064,353	992,212	-	2,056,565
Receivables from finance leases	1,406,844	195,597	-	1,602,441
Receivables from factoring	3,719,467	-	136,244	3,855,711
Held-to-maturity investments	19,043,316	-	-	19,043,316
Other financial assets	1,022,462	43,748	61,411	1,127,621
<b>Total assets</b>	<b>395,713,938</b>	<b>67,228,110</b>	<b>4,965,772</b>	<b>467,907,820</b>
<b>LIABILITIES</b>				
Deposits and balances from banks	16,843,969	5,876,382	325,668	23,046,019
Current accounts and deposits from customers	255,925,460	22,905,061	7,060,702	285,891,223
Subordinated borrowings	39,565,571	-	-	39,565,571
Other borrowed funds	76,609,658	-	-	76,609,658
Debt securities issue	31,326,632	1,706,357.00	-	33,032,989
Other financial liabilities	718,250	154,067	39,846	912,163
<b>Total liabilities</b>	<b>420,989,540</b>	<b>30,641,867</b>	<b>7,426,216</b>	<b>459,057,623</b>
<b>Net position</b>	<b>(25,275,602)</b>	<b>36,586,243</b>	<b>(2,460,444)</b>	<b>8,850,197</b>
Effect of derivatives	37,956,777	(36,612,341)	3,024,295	4,368,731
<b>Net position</b>	<b>12,681,175</b>	<b>(26,098)</b>	<b>563,851</b>	<b>13,218,928</b>

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

2016	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000
<b>ASSETS</b>				
Cash and cash equivalents	60,519,867	16,343,707	1,286,790	78,150,364
Banking standardized bullions of precious metals	-	-	351,233	351,233
Available-for-sale financial assets	5,046,032	-	-	5,046,032
Loans and advances to banks	183,897	2,197,338	62,810	2,444,045
Amounts receivable under reverse repurchase agreements	1,196,793	-	-	1,196,793
Loans to customers	360,368,545	14,339,351	13,550	374,721,446
Receivables from letters of credit	4,995,759	2,711,546	-	7,707,305
Receivables from finance leases	1,585,355	226,224	-	1,811,579
Receivables from factoring	3,927,965	-	-	3,927,965
Held-to-maturity investments	7,771,091	-	-	7,771,091
Other financial assets	722,994	26,648	30,537	780,179
<b>Total assets</b>	<b>446,318,299</b>	<b>35,844,814</b>	<b>1,744,920</b>	<b>483,908,033</b>
<b>LIABILITIES</b>				
Deposits and balances from banks	9,911,600	2,725,678	174,652	12,811,930
Current accounts and deposits from customers	278,789,515	33,005,620	2,533,880	314,329,015
Subordinated borrowings	40,811,255	-	-	40,811,255
Other borrowed funds	88,947,284	-	-	88,947,284
Debt securities issue	17,106,596	-	-	17,106,596
Other financial liabilities	436,779	113,422	7,192	557,393
<b>Total liabilities</b>	<b>436,003,029</b>	<b>35,844,720</b>	<b>2,715,724</b>	<b>474,563,473</b>
<b>Net position</b>	<b>10,315,270</b>	<b>94</b>	<b>(970,804)</b>	<b>9,344,560</b>
Effect of derivatives	(404,937)	-	1,377,911	972,974
<b>Net position</b>	<b>9,910,333</b>	<b>94</b>	<b>407,107</b>	<b>10,317,534</b>

A strengthening of the AMD, as indicated below, against the following currencies at 30 September 2017 and 31 December 2016 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017		2016	
	Appreciation	Profit or loss AMD'000	Appreciation	Profit or loss AMD'000
AMD against USD	6.00%	(760,871)	6.00%	(594,620)
AMD against EUR	11.00%	2,871	11.00%	(10)

A weakening of the AMD against the above currencies at 30 September 2017 and 31 December 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### **(c) Credit risk**

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

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing control and monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Center and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal department depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Subdivisions.

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

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

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

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 33.

### **Offsetting financial assets and financial liabilities**

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

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

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

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

#### **(d) Liquidity risk**

Liquidity risk is the risk that the Bank may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the liquidity risk.

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

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

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans



- monitoring liquidity ratios against regulatory requirements.

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

(e) The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 30 September 2017:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
<b>ASSETS</b>								
Cash and cash equivalents	142,744,059	-	-	-	-	-	-	142,744,059
Banking standardized bullions of precious metals	-	-	-	-	-	656,536	-	656,536
Financial instruments at fair value through profit or loss	500,068	5,804	5,232	1,656,389	437,983	-	-	2,605,475
Available-for-sale financial assets	-	-	8,193	8,042,574	4,297,421	106,460	-	12,454,648
Loans and advances to banks	4,088,783	10,543,297	-	-	-	497,693	-	15,129,773
Amounts receivable under reverse repurchase agreements	8,646,697	-	-	-	-	-	-	8,646,697
Loans to customers	5,453,259	13,307,761	81,281,116	211,403,442	90,315,797	-	14,948,451	416,709,825
Receivables from letters of credit	110,647	385,982	713,951	845,985	-	-	-	2,056,565
Receivables from finance leases	87,338	70,628	286,602	659,554	540,669	-	-	1,644,791
Receivables from factoring	334,053	712,999	3,213,902	-	-	-	-	4,260,954
Held-to-maturity investments	6,230,928	374,884	10,159,760	29,785,704	2,263,975	-	-	48,815,251
Property, equipment and intangible assets	-	-	-	-	-	5,594,946	-	5,594,946
Current tax asset	-	-	680,914	-	-	-	-	680,914
Other assets	763,394	414,644	3,816,458	-	-	351,127	-	5,345,623
<b>Total assets</b>	<b>168,959,225</b>	<b>25,815,999</b>	<b>100,166,128</b>	<b>252,393,649</b>	<b>97,855,845</b>	<b>7,206,762</b>	<b>14,948,451</b>	<b>667,346,057</b>
<b>LIABILITIES</b>								
Financial instruments at fair value through profit or loss	219,107	-	-	-	-	-	-	219,107
Amounts payable under repurchase agreements	1,042,283	-	-	-	-	-	-	1,042,283
Deposits and balances from banks	7,794,797	2,595,831	11,590,159	9,200,714	1,160,364	-	-	32,341,865
Current accounts and deposits from customers	215,261,053	27,603,553	101,733,870	51,048,680	73,132	-	-	395,720,289
Debt securities issue	100,179	154,072	8,707,303	26,618,991	-	-	-	35,580,544
Subordinated borrowings	-	-	597,779	38,967,792	-	-	-	39,565,571
Other borrowed funds	3,754,080	1,789,667	12,574,604	62,665,758	6,901,338	-	-	87,685,448
Deferred tax liability	-	-	2,192,312	-	-	-	-	2,192,312
Other liabilities	2,192,157	151,715	2,067,877	-	-	-	-	4,411,749
<b>Total liabilities</b>	<b>230,363,656</b>	<b>32,294,838</b>	<b>139,463,905</b>	<b>188,501,934</b>	<b>8,134,834</b>	<b>-</b>	<b>-</b>	<b>598,759,168</b>
<b>Net position</b>	<b>(61,404,431)</b>	<b>(6,478,840)</b>	<b>(39,297,778)</b>	<b>63,891,714</b>	<b>89,721,011</b>	<b>7,206,762</b>	<b>14,948,451</b>	<b>68,586,889</b>

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2016:

<i>AMD'000</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Overdue</i>	<i>Total</i>
<b>Assets</b>								
Cash and cash equivalents	135,280,872	-	-	-	-	-	-	135,280,872
Banking standardized bullions of precious metals	-	-	-	-	-	351,233	-	351,233
Financial instruments at fair value through profit or loss	32,747	-	1,635,132	1,462,192	-	-	-	3,130,071
Available-for-sale financial assets	235,398	3,182,714	1,592,389	6,794,780	496,553	106,458	-	12,408,292
Loans and advances to banks	3,516,249	-	-	-	-	1,337,053	-	4,853,302
Amounts receivable under reverse repurchase agreements	6,446,797	-	-	-	-	-	-	6,446,797
Loans to customers	16,403,038	28,527,041	125,809,682	236,921,824	80,447,437	-	11,179,500	499,288,522
Receivables from letters of credit	148,376	2,443,528	2,389,714	2,725,685	-	-	-	7,707,303
Receivables from finance leases	45,415	78,104	358,703	900,996	656,804	-	-	2,040,022
Receivables from factoring	2,244,277	597,578	1,341,007	-	-	-	-	4,182,862
Held-to-maturity investments	-	13,258,090	8,823,925	14,031,034	142,593	-	-	36,255,642
Property, equipment and intangible assets	-	-	-	-	-	3,651,239	-	3,651,239
Current tax asset	-	-	-	1,321,801	-	-	-	1,321,801
Other assets	522,684	88,859	1,484,368	-	-	349,554	-	2,445,465
<b>Total assets</b>	<b>164,875,853</b>	<b>48,175,914</b>	<b>143,434,920</b>	<b>264,158,312</b>	<b>81,743,387</b>	<b>5,795,537</b>	<b>11,179,500</b>	<b>719,363,423</b>
<b>Liabilities</b>								
Financial instruments at fair value through profit or loss	2,081	-	1,554,643	978,559	-	-	-	2,535,283
Deposits and balances from banks	1,595,259	2,128,832	5,409,310	60,870,822	1,830,659	-	-	71,834,882
Current accounts and deposits from customers	176,449,951	41,703,120	142,918,485	53,468,011	69,119	-	-	414,608,686
Debt securities issue	95,313	13,931	24,650	17,990,606	-	-	-	18,124,500
Subordinated borrowing	1,019,046	385,838	-	15,378,096	24,028,275	-	-	40,811,255
Other borrowed funds	3,619,303	12,292,150	11,198,771	69,423,677	6,201,138	-	-	102,735,039
Deferred tax liability	-	-	-	1,442,872	-	-	-	1,442,872
Other liabilities	545,421	165,393	2,162,324	-	-	-	-	2,873,138
<b>Total liabilities</b>	<b>183,326,374</b>	<b>56,689,264</b>	<b>163,268,183</b>	<b>219,552,643</b>	<b>32,129,191</b>	<b>-</b>	<b>-</b>	<b>654,965,655</b>
<b>Net position</b>	<b>(18,450,521)</b>	<b>(8,513,350)</b>	<b>(19,833,263)</b>	<b>44,605,669</b>	<b>49,614,196</b>	<b>5,795,537</b>	<b>11,179,500</b>	<b>64,397,768</b>

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities as at 30 September 2017 and during the reporting period are as follows:

	<b>2017</b> <b>AMD'000</b>	<b>2016</b> <b>AMD'000</b>
At 30 September (unaudited)	108%	150%
Average for September (unaudited)	115%	139%

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

## 32 Capital management

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 maximize 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, policies and processes from the previous years.

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 30 September 2017 and 31 December 2016, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 30 September 2017 and 31 December 2016.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Central Bank of Armenia, as at 30 September 2017 and 31 December 2016:

	<b>30/09/17</b> <b>AMD'000</b> <b>Unaudited</b>	<b>31/12/16</b> <b>AMD'000</b> <b>Unaudited</b>
<b>Tier 1 capital</b>		
Share capital	32,087,360	32,087,360
Share premium	7,755,180	7,755,180
General reserve	4,424,146	4,249,146
Retained earnings	14,777,243	13,483,398
Deductions	(3,763,627)	(2,499,105)
<b>Total tier 1 capital</b>	<b>55,280,302</b>	<b>55,075,979</b>
<b>Tier 2 capital</b>		
Revaluation reserve for available-for-sale financial assets	352,681	307,897

Subordinated borrowing (not greater than 50% of tier 1 capital)	25,260,048	27,230,093
<b>Total tier 2 capital</b>	<b>25,612,729</b>	<b>27,537,990</b>
<b>Total capital</b>	<b>80,893,031</b>	<b>82,613,969</b>
<b>Total risk weighted assets</b>	<b>582,897,272</b>	<b>516,128,882</b>
<b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio)</b>	<b>13.88%</b>	<b>16.01%</b>

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

### 33 Commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	<b>30/09/17</b>	<b>31/12/16</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Contracted amount</b>		
Guarantees	7,415,232	9,116,861
Letters of credit	354,231	623,303
Credit card commitments	8,667,341	7,976,314
Loan and credit line commitments	17,339,206	21,416,078
Undrawn overdraft facilities	3,485,092	4,775,663
	<b>37,261,102</b>	<b>43,908,219</b>

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

## 34 Operating leases

### (a) Leases as lessee

Non-cancelable operating lease rentals as at 30 September 2017 and 31 December 2016 are payable as follows:

	<b>2017</b> <b>AMD'000</b>	<b>2016</b> <b>AMD'000</b>
Less than 1 year	1,911,213	1,952,090
Between 1 and 5 years	7,497,085	9,490,860
More than 5 years	24,092,920	6,676,219
	<b>33,501,218</b>	<b>18,119,169</b>

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. As at 30 September 2017 operating leases include non-cancellable rentals to a related party amounting to AMD 31,177,255 thousand (2016: AMD 15,315,888 thousand).

## 35 Contingencies

### (a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 6,521,734 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of accidents on the Bank's property or related to operations.

### (b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

### (c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 the Republic of Armenia that are substantially 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 the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

## 36 Related party transactions

### (a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 65.8% of the share capital.

The ultimate parent of the Bank is Noelia Holding Limited Investment company wherein the final beneficiary owner is Ruben Vardanyan

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

### (b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the quarter ended 30 September 2017 and 30 September 2016 are as follows:

	<b>01/01/2017- 30/09/2017 AMD'000</b>	<b>01/01/2016- 30/09/2016 AMD'000</b>
Short-term employee benefits	<u>1,689,459</u>	<u>1,986,946</u>

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

The outstanding balances and average interest rates as at 30 September 2017 and 31 December 2016 for transactions with the members of the Board of Directors and the Management Board are as follows:

	<b>2017 AMD'000</b>	<b>Average interest rate, %</b>	<b>2016 AMD'000</b>	<b>Average interest rate, %</b>
<b>Statement of financial position</b>				
Loans issued	900,202	7.04%	956,059	6.96%
Other asset	1,179	0.0%	1,135	0.0%
Deposits received	612,910	5.74%	422,061	6.58%
Other liabilities	713,061	0.0%	850,945	0.0%
Guarantees	<u>33,489</u>	<u>0%</u>	<u>33,876</u>	<u>0.0%</u>

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the periods ending 30 September 2017 and 30 September 2016 are as follows:

	<b>01/01/2017- 30/09/2017 AMD'000</b>	<b>01/01/2016- 30/09/2016 AMD'000</b>
<b>Profit or loss</b>		
Interest income	49,501	46,431
Interest expense	(16,976)	(36,911)

**(c) Transactions with other related parties**

The outstanding balances and the related average effective interest rates as at 30 September 2017 and related profit or loss amounts of transactions for the third quarter ended 30 September 2017 with other related parties are as follows:

	Parent company		Shareholder with significant influence		Other subsidiaries of the parent company		Other		Total
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
<b>Statement of financial position</b>									
<b>ASSETS</b>									
Financial instruments at fair value through profit or loss							263,506	-	<b>263,506</b>
Loans to customers							33,896,502	13.30%	<b>33,896,502</b>
Other asset				1,030,242	-				<b>1,030,242</b>
<b>LIABILITIES</b>									
Financial instruments at fair value through profit or loss							194,164	-	<b>194,164</b>
Current accounts and deposits from customers									
- Current accounts and demand deposits	59,585	0.0%	589,716	0.0%	1,323,968	0.0%	17,619,648	0.0%	<b>19,592,917</b>
- Term deposits					367,976	4.31%	31,707,682	12.87%	<b>32,075,658</b>
Subordinated borrowing							5,764,329	6.00%	<b>5,764,329</b>
Other borrowing			11,003,586	9.22%					<b>11,003,586</b>
Other liabilities	816,728	-	490,382	-	61,667	-			<b>1,368,777</b>
<b>Items not recognised in the statement of financial position</b>									
Guarantees given					37,442		19,760	0.0%	<b>57,202</b>
<b>Profit (loss)</b>									
Interest income			1,371				3,382,317		<b>3,383,688</b>
Interest expense			(889,768)		(15,803)		(2,917,757)		<b>(3,823,328)</b>
Other expense					(72,924)				<b>(72,924)</b>



The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the quarter ended 30 September 2016 with other related parties are as follows:

	Parent company		Shareholder with significant influence		Subsidiaries of the parent company		Entities under common control and other related parties		Total
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
<b>Statement of financial position</b>									
<b>ASSETS</b>									
Financial instruments at fair value through profit or loss							1,633,886	–	1,633,886
Loans and advances to banks			1,001,707	6.25%					1,001,707
Loans to customers							82,599,050	6.25%	82,599,050
Held-to-maturity investments							3,596	–	3,596
<b>LIABILITIES</b>									
Financial instruments at fair value through profit or loss							1,554,397	-	1,554,397
Current accounts and deposits from customers									
- Current accounts and demand deposits	70,859	0.00%	326,386	0.00%	964,541	0.00%	32,025,131	0.00%	33,386,917
- Term deposits					1,227,222	3.20%	29,346,134	12.82%	30,573,356
Subordinated borrowings							5,920,428	6.00%	5,920,428
Other borrowings			14,103,304	9.08%					14,103,304
Other liabilities			20,765	0.00%					20,765
<b>Items not recognised in the statement of financial position</b>									
Guarantees given							17,927	0.00%	17,927
<b>Profit (loss)</b>									
Interest income							3,083,310		3,083,310
Interest expense	(28,196)		(990,966)		(36,623)		(2,937,972)		(3,993,756)

## **37 Financial assets and liabilities: fair values and accounting classifications**

### **(a) Accounting classifications and fair values**

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale, loans to customers and held-to-maturity investments approximate their carrying values. As at 30 September 2017 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 106,458 thousand (2016: AMD 106,458 thousand) cannot be determined.

### **(b) Fair value hierarchy**

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 30 September 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

<b>AMD'000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial instruments at fair value through profit or loss			
- Debt instruments		2,006,085	2,006,085
- Derivative assets	-	599,390	599,390
- Derivative liabilities	-	(219,107)	(219,107)
Available-for-sale financial assets			
- Debt instruments	-	12,454,648	12,454,648
	<b>-</b>	<b>14,841,016</b>	<b>14,841,016</b>

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

<b>AMD'000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial instruments at fair value through profit or loss			
- Derivative assets	-	1,971,711	1,971,711
- Derivative liabilities	-	(1,463,653)	(1,463,653)
Available-for-sale financial assets			
- Debt instruments		12,301,834	12,301,834
	-	<b>12,809,892</b>	<b>12,809,892</b>

Fair value of financial instruments not measured at fair value at 30 September 2017, but for which fair value is disclosed is attributed to Level 2 fair value hierarchy.