Financial Statements
and Independent Auditor's Report

“Farm Credit Armenia” universal credit organization commercial cooperative

31 December 2017

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Independent auditor's report

To the participants and Board of Directors of "Farm Credit Armenia" universal credit organization commercial cooperative:

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the financial statements

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

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

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

Auditor's Responsibilities for the Audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Gagik Gyulbudaghyan
Managing Partner

Armen Hovhannisyan
Engagement Partner

29 May 2018

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest and similar income	6	1,265,221	1,174,777
Interest and similar expense	6	(608,392)	(546,292)
Net interest income		656,829	628,485
Net trading income	7	(8,509)	(11,735)
Income from grants received	8	22,536	31,899
Other income	9	30,043	70,531
Impairment charge/(reversal)	10	84,388	(245,480)
Staff costs	11	(494,953)	(374,051)
Other expenses	12	(284,127)	(227,611)
Profit/(loss) before income tax		6,207	(127,962)
Income tax recovery	13	7,722	5,955
Profit/(loss) for the year		13,929	(122,007)
Total comprehensive income for the year		13,929	(122,007)

The accompanying notes on pages 9 to 44 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams

	Notes	As of 31 December 2017	As of 31 December 2016
Assets			
Cash and cash equivalents	14	317,479	578,748
Derivative financial assets	15	390	582
Securities held-to-maturity	16	308,123	-
Loans to customers	17	10,117,133	8,103,849
Finance lease receivables	18	14,505	33,102
Prepaid income taxes		12,906	14,212
Deferred income tax assets	13	4,453	-
Property and equipment	19	131,581	153,661
Repossessed assets	20	35,718	35,465
Other assets	21	22,122	17,819
Total asstes		10,964,410	8,937,438
Liabilities and equity			
Liabilities			
Loans and borrowings	22	9,423,142	7,546,611
Derivative financial liabilities	15	607	-
Grants related to assets	23	30,100	51,765
Deferred income tax liabilities		-	3,269
Other liabilities	24	157,369	90,599
Total liabilities		9,611,218	7,692,244
Equity			
Charter capital	25	842,610	748,541
Retained earnings		510,582	496,653
Total equity		1,353,192	1,245,194
Total liabilities ans equity		10,964,410	8,937,438

The financial statements from pages 5 to 44 were signed by the Organization's General Director and Chief Accountant on 29 May 2018:

Armen Gabrielyan
General Director

Hrachuhi Hovhannisyan
Chief Accountant

The accompanying notes on pages 9 to 44 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Charter capital	Retained earnings	Total
Balance as of 1 January 2016	699,794	618,660	1,318,454
Increase in charter capital	48,747	-	48,747
Transactions with owners	48,747	-	48,747
Loss for the year	-	(122,007)	(122,007)
Total comprehensive income for the year	-	(122,007)	(122,007)
	748,541	496,653	1,245,194
Balance As of 31 December 2016			
Increase in charter capital	94,069	-	94,069
Transactions with owners	94,069	-	94,069
Profit for the year	-	13,929	13,929
Total comprehensive income for the year	-	13,929	13,929
Balance as of 31 December 2017	842,610	510,582	1,353,192

The accompanying notes on pages 9 to 44 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Interest receivable	1,263,799	1,156,613
Interest payable	(615,248)	(588,785)
Net amounts from foreign currency transactions	(7,710)	(12,724)
Other income received	29,041	67,746
Income from grants	871	2,760
Staff and other administrative expenses	(747,129)	(540,656)
Cash flows from /(used in) operating activities before changes in operating assets and liabilities	(76,376)	84,954
(Increase)/decrease in operating assets		
Loans to customers	(1,884,642)	(633,329)
Finance lease receivables	26,599	30,719
Other assets	(5,223)	(3,768)
Increase/(decrease) in operating liabilities		
Other liabilities	36,125	36,373
Net cash flow used in operating activities before income tax	(1,903,517)	(485,051)
Income tax paid	-	(3,860)
Net cash used in operating activities	(1,903,517)	(488,911)
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(32,522)	(62,634)
Sale of property and equipment and intangible assets	954	4,636
Purchase of securities	(301,452)	-
Net cash used in investing activities	(333,020)	(57,998)
Cash flow from financing activities		
Loans and borrowings received	4,619,783	2,903,146
Loans and borrowings repaid	(2,736,397)	(2,320,016)
Proceeds from issue of share capital	94,069	48,747
Net cash from financing activities	1,977,455	631,877
Net increase/(decrease) in cash and cash equivalents	(259,082)	84,968
Effect of exchange differences on cash and cash equivalents	(2,187)	3,017
Cash and cash equivalents at the beginning of the year	578,748	490,763
Cash and cash equivalents at the end of the year (note 14)	317,479	578,748

The accompanying notes on pages 9 to 44 are an integral part of these financial statements.

Notes to the financial statements

1 Principal activities

“Farm Credit Armenia” universal credit organization commercial cooperative (the “Organization”) was founded in the Republic of Armenia in 2007 as a universal credit organization commercial cooperative and is regulated by the legislation of the Republic of Armenia (RA). The Organization was registered on 18 September 2007 under license number 20, granted by the Central Bank of Armenia (the “CBA”).

The Organization’s main activity is the extension of small and medium size agricultural loans to individuals and legal entities. The Organization mainly extends loans and provides other financial services to farms in the regions of RA.

The head office of the Organization is located in Yerevan, 7 branches are located in different regions of the RA. The legal address of the Organization is Kajaznuni 18, Yerevan, RA.

In 2017 the average number of employees in the Oorganization was 106 (2016: 101).

2 Armenian business environment

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*
- *Annual Improvements to IFRSs 2014-2016 Cycle – various standards (Amendments to IFRS 12.*

3.5 Standards and interpretations not yet applied by the Organization

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

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

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

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

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

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

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

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

Classification – Financial assets and Financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

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

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

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

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

– Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.

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

– Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

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

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

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

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

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

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

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

Impairment – Financial assets, loan commitments and financial guarantee contracts

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

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

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

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

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

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

– incorporating forward-looking information into the measurement of ECLs;

– Definition of default.

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

– Probability of default (PD);

– loss given default (LGD); and

– exposure at default (EAD).

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

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

Transition

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

– The Organization will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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

IFRS 16 Leases

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

IFRS 16 also:

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

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

Other standards

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Other income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Other service fees are recorded based on the applicable service contracts.

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

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

4.3 Taxation

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise amounts due from banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost.

4.5 Financial instruments

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

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

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

The Organization classified its financial assets into the following categories:

- financial instruments at fair value through profit or loss,

- held-to-maturity investments,
- loans and receivables.

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

Financial assets at fair value through profit or loss

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

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

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

Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;

Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

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

Held-to-maturity investments

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

Loans and receivables

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

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

4.6 Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

4.7 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.8 Leases

Finance – Organization as lessor

The Organization recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. 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 - Organization as lessee

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

4.9 Property, plant and equipment

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

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

	Useful life (years)
Computer equipment	1-5
Household equipment	3-5
Vehicles	5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

4.10 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1-10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Organization can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.11 Repossessed assets

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

4.12 Grants

Grants relating to the assets are initially recognised as deferred income at fair value, when there is a reasonable assurance that grants will be received and the Organization will satisfy the conditions associated with grants, later they are recognised in profit or loss as income during useful life of asset. Grants that compensate the costs incurred by the Organization or provided as financial assistance are recognised in profit or loss at the same period when expenses are recognised.

4.13 Loans and Borrowings

Loans and borrowings which include borrowings received from the CBA and other organizations are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.14 Equity

Charter capital

Charter capital consists of participants' shares.

Retained earnings

Include accumulated profit of current and previous periods.

4.15 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

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

Related party transactions

In the normal course of business the Organization enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis(refer to note 27).

Allowance for impairment of loans and advances

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

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

Fair value of derivatives

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

Useful Life of PPE

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

Tax legislation

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

6 Interest and similar income and expense

In thousand Armenian drams	**2017**	**2016**
Loans to customers	1,241,743	1,152,699
Cash and cash equivalents	13,906	14,661
Debt investment securities held-to-maturity	6,202	-
Finance lease	3,370	7,417
Total interest and similar income	1,265,221	1,174,777
Loans and borrowings	608,392	546,292
Total interest and similar expense	608,392	546,292

7 Net trading loss

In thousand Armenian drams	2017	2016
Net gains/(losses) from trading in foreign currencies	855	(2,336)
Gains less losses from revaluation of derivative instruments	64	580
Net loss from trading of derivative instruments	(9,428)	(9,979)
Total net trading loss	(8,509)	(11,735)

8 Income from grants received

In thousand Armenian drams	2017	2016
Grants related to income	871	2,760
Grants related to assets (note 23)	21,665	29,139
Total income from grants	22,536	31,899

9 Other income

In thousand Armenian drams	2017	2016
Fines and penalties received	26,559	65,818
Income from sale of fixed assets	1,002	1,436
Income from sale of other assets	-	384
Foreign currency translation net gains of non-trading assets and liabilities	-	966
Other income	2,482	1,927
Total other income	30,043	70,531

10 Impairment charge/(reversal)

In thousand Armenian drams	2017	2016
Loans to customers (note 17)	(80,413)	243,457
Finance lease receivables (note 18)	(4,276)	1,432
Other assets (note 21)	301	591
Total impairment charge/(reversal) of assets	(84,388)	245,480

11 Staff costs

In thousand Armenian drams	2017	2016
Compensations of employees, related taxes included	480,546	370,110
Staff training costs	14,407	3,941
Total staff costs	494,953	374,051

12 Other expenses

In thousand Armenian drams	2017	2016
Depreciation and amortization	54,555	52,807
Operating lease	51,057	45,989
Maintenance and servicing expenses	24,013	20,533
Business trip expenses	23,818	12,818
Loan provisioning expenses	17,330	17,280
Household equipment and utility services	17,258	14,650
Advertising and public relations	13,280	5,489
Representative expenses	12,177	4,717
Insurance	11,287	9,762
Professional expenses	8,299	4,800
Communication and information services	7,956	6,475
Computer software expenses	7,405	7,005
Banking services	6,646	6,613
Payments to Financial system mediator	6,275	5,883
Taxes, other than income tax, duties	4,129	3,969
Office supplies	3,834	3,384
Membership fees	2,507	2,195
Fines and penalties	2,488	117
Loans concession	2,088	-
Foreign currency translation net gains of non-trading assets and liabilities	54	-
Other expenses	7,671	3,125
Total other expense	284,127	227,611

13 Income tax recovery

In thousand Armenian drams	2017	2016
Deferred tax recovery	(7,722)	(5,901)
Adjustments of income tax of previous years	-	(54)
Total income tax recovery	(7,722)	(5,955)

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

Numerical reconciliation between the income tax expenses/ (recovery) and accounting profit/(loss) is provided below:

In thousand Armenian drams	2017	Effective rate (%)	2016	Effective rate (%)
Profit/(loss) before tax	6,207	-	(127,962)	-
Income tax at the rate of 20%	1,241	20	(25,592)	(20)
Foreign currency translation net (gains)/losses of non-trading assets and liabilities	11	-	(193)	-
Non-deductible expenses	6,809	110	4,101	3
Adjustments of current income tax for prior years	-	-	(54)	-
Use of accumulated tax losses	(15,783)	(254)	-	-
Effect of the unrecognized tax asset from the accumulated tax losses	-	-	15,783	12
Income tax recovery	(7,722)	(124)	(5,955)	(5)

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2016	Recognized in profit or loss	As of 31 December 2017
Loans to customers	1,478	(223)	1,255
Loans and borrowings	1,199	1,893	3,092
Other liabilities	3,285	2,336	5,621
Accumulated tax losses	15,783	(12,714)	3,069
Total deferred tax assets	21,745	(8,708)	13,037
Estimation of deferred tax assets	(15,783)	15,783	-
Total deferred tax assets	5,962	7,075	13,037
Cash and cash equivalents	(1,136)	532	(604)
Property and equipment	(7,907)	-	(7,907)
Other assets	(188)	115	(73)
Total deferred tax liability	(9,231)	647	(8,584)
Net deferred tax asset/(liability)	(3,269)	7,722	4,453

In thousand Armenian drams	As of 31 December 2015	Recognized in profit or loss	As of 31 December 2016
Loans to customers	-	1,478	1,478
Loans and borrowings	296	903	1,199
Other liabilities	2,562	723	3,285
Accumulated tax losses	-	15,783	15,783
Total deferred tax assets	2,858	18,887	21,745
Estimation of deferred tax assets	-	(15,783)	(15,783)
Total deferred tax assets	2,858	3,104	5,962
Cash and cash equivalents	(973)	(163)	(1,136)
Loans to customers	(5,108)	5,108	-
Property and equipment	(5,947)	(1,960)	(7,907)
Other assets	-	(188)	(188)
Total deferred tax liability	(12,028)	2,797	(9,231)
Net deferred tax liability	(9,170)	5,901	(3,269)

As of 31 December 2016 deferred tax assets for AMD 15,783 thousand were not recognized due to uncertainty of their future utilization.

14 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Correspondent accounts with banks	302,009	460,439
Deposits for less than 90 days	-	118,309
Other short-term amounts	15,470	-
Total cash and cash equivalents	317,479	578,748

As of 31 December 2016 average weighted effective interest rate of deposits for less than 90 days in USD is 3.15%.

Non-cash transactions performed by the Organization during 2017 are represented by repayment of issued debt by taking possession of collateral of AMD 11,636 thousand (2016: AMD 35,465 thousand).

15 Derivative financial instruments

The Organization uses the following derivative instruments. Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Organization's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Fair values of derivative financial instruments are presented below.

In thousand Armenian drams	As of 31 December 2017			As of 31 December 2016		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Interest rate contracts	431,484	390	607	321,420	582	-
Foreign exchange contracts		390	607		582	-

16 Investments held-to-maturity

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
RA state bonds	308,123	-
	308,123	-

The nominal interest rates and maturity dates of the mentioned securities are presented below:

In thousand Armenian drams	As of 31 December 2017		As of 31 December 2016	
	%	Maturity	%	Maturity
RA state bonds	6%	2020	-	-

17 Loans to customers

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Privately held companies	1,070,794	879,482
Sole proprietors	1,810,623	1,680,568
Individuals	7,476,582	5,823,116
	10,357,999	8,383,166
Less allowance for loan impairment	(240,866)	(279,317)
Total loans to customers	10,117,133	8,103,849

As of 31 December 2017 the average weighted effective interest rate on loans to customers was 13.74% (2016: 13.58%) for loans in AMD and 11.63% (2016: 12.37%) for loans in USD.

As of 31 December 2017 the Organization did not have borrowers or groups related to borrowers (2016: either) whose credit balances exceed 10% of total equity.

As of 31 December 2017 loans to customers amounting to AMD 7,733,927 thousand (2016: AMD 6,146,046 thousand) are provided as collateral for loans issued by the Central Bank of Armenia (refer to note 22).

Loans of 2,095,190 thousand drams (1,306,285 thousand drams in 2016) are the loans provided as collateral by the South-European Fund (refer to note 22).

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

							2017
In thousand Armenian drams	Crop production	Cattle breeding	Trading	Fish farming	Industry	Other	Total
Loans	3,851,238	3,623,674	1,623,350	275,988	536,754	446,995	10,357,999
Less allowance for loan impairment	(95,604)	(83,591)	(32,467)	(5,520)	(10,735)	(12,949)	(240,866)
Net loans	3,755,634	3,540,083	1,590,883	270,468	526,019	434,046	10,117,133

							2016
In thousand Armenian drams	Crop production	Cattle breeding	Trading	Fish farming	Industry	Other	Total
Loans	2.959,211	2,774,510	1,468,080	273,935	433,570	473,860	8,383,166
Less allowance for loan impairment	(113,441)	(83,342)	(48,475)	(7,885)	(10,839)	(15,335)	(279,317)
Net loans	2,845,770	2,691,168	1,419,605	266,050	422,731	458,525	8,103,849

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

							2017
In thousand Armenian drams	Crop production	Cattle breeding	Trading	Fish farming	Industry	Other	Total
At 1 January 2017	113,441	83,342	48,475	7,885	10,839	15,335	279,317
Charge for the year	648	22,663	1,343	4,652	4,585	8,071	41,962
Net amounts written off	(18,485)	(22,414)	(17,351)	(7,017)	(4,689)	(10,457)	(80,413)
At 31 December 2017	95,604	83,591	32,467	5,520	10,735	12,949	240,866
Individual impairment	11,490	3,668	-	-	-	-	15,158
Collective impairment	84,113	79,923	32,467	5,520	10,735	12,949	225,707
	95,603	83,591	32,467	5,520	10,735	12,949	240,865
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	27,906	6,706	-	-	-	-	34,612

In thousand Armenian drams	Crop production	Cattle breeding	Trading	Fish farming	Industry	Other	2016 Total
At 1 January 2016	71,161	65,693	35,268	3,537	18,691	6,275	200,625
Charge/(reversal) for the year	128,527	72,028	3,651	(9,296)	(7,878)	56,425	243,457
Net (amounts written off)/recovery	(86,247)	(54,379)	9,556	13,644	26	(47,365)	(164,765)
At 31 December 2016	113,441	83,342	48,475	7,885	10,839	15,335	279,317
Individual impairment	25,312	-	26,857	-	-	-	52,169
Collective impairment	88,129	83,342	21,618	7,885	10,839	15,335	227,148
	113,441	83,342	48,475	7,885	10,839	15,335	279,317
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	66,923	-	77,475	-	-	-	144,398

As it is mentioned in note 28 at 31 December 2017 and 31 December 2016 the estimated fair value of loans to customers approximates their carrying value.

The risks inherent in the loan portfolio are disclosed in note 31. The information on related party balances is disclosed in note 27.

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

18 Finance lease receivables

Information on finance lease is presented below:

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Gross investment on finance leases		
Not later than 1 year	5,569	4,583
From1 to 5 years	10,592	33,584
	16,161	38,167
Unearned future finance income on finance leases		
Not later than 1 year	(186)	(225)
From1 to 5 years	(1,174)	(4,165)
	(1,360)	(4,390)
Net investment in finance lease	14,801	33,777
Less allowance for loan impairment	(296)	(675)
Financial lease receivables	14,505	33,102

The movement in allowance for impairment losses on financial lease is as follows:

In thousand Armenian drams	Total
At 1 January 2016	2,568
Charge for the year	1,432
Net amounts written off	(3,325)
At 31 December 2016	675
Reversal for the year	(4,276)
Net recovery	3,897
At 31 December 2017	296
Collective impairment	296

As of 31 December 2017 supposed interest rate in respect of financial lease is 13.48% (2016: 14.07%).

Maturity analysis of amounts to customers in respect of financial lease is disclosed in note 30.

The risks inherent in the loan portfolio are disclosed in note 31.

19 Property, plant and equipment

In thousand Armenian drams	Computer equipment	Household equipment	Vehicles	Intangible assets	Total
Cost					
At 1 January 2016	143,011	55,269	143,782	23,378	365,440
Additions	4,724	3,323	54,587	-	62,634
Disposals	(1,267)	(371)	(28,724)	(568)	(30,930)
At 31 December 2016	146,468	58,221	169,645	22,810	397,144
Additions	12,247	9,665	-	10,610	32,522
Disposals	(1,928)	(1,323)	(6,480)	-	(9,731)
At 31 December 2017	156,787	66,563	163,165	33,420	419,935
Accumulated depreciation					
At 1 January 2016	71,348	35,729	103,216	8,113	218,406
Charge for the year	22,630	6,880	20,924	2,373	52,807
Disposals	(1,267)	(362)	(25,575)	(526)	(27,730)
At 31 December 2016	92,711	42,247	98,565	9,960	243,483
Charge for the year	24,556	7,243	20,337	2,418	54,554
Disposals	(1,928)	(1,323)	(6,432)	-	(9,683)
At 31 December 2017	115,339	48,167	112,470	12,378	288,354
Carrying amounts					
At 31 December 2016	53,757	15,974	71,080	12,850	153,661
At 31 December 2017	41,448	18,396	50,695	21,042	131,581

Fully depreciated items

As of 31 December 2017 fixed assets and intangible assets included fully depreciated assets in amount of AMD 126,530 thousand (2016: AMD 107,385 thousand).

As at 31 December 2017 the Organization has not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2017 the Organization has not had contractual commitment (2016: either).

20 Repossessed assets

Details of financial and non-financial assets obtained by the Organization during the year by taking possession of collateral held as security against loans as of December 31 are presented below:

In thousand Armenian drams	2017	2016
Property	35,718	35,465
	35,718	35,465

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

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

21 Other assets

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Debtors and other receivables	8,281	1,323
Less allowance on receivables impairment	-	(141)
Total other financial assets	8,281	1,182
Prepayments	7,751	6,153
Prepayments on other taxes	5,154	9,107
Small value items	886	1,377
Other	50	-
Total non-financial assets	13,841	16,637
Total other assets	22,122	17,819

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

In thousand Armenian drams	Total
At 1 January 2016	477
Charge for the year	591
Amounts written off	(927)
At 31 December 2016	141
Charge for the year	301
Amounts written off	(442)
At 31 December 2017	-

22 Loans and borrowings

In thousand Armenian drams	31 December 2017	31 December 2016
Loans from the CBA	6,927,906	6,077,484
Loans from state non-commercial organizations	2,093,905	1,469,127
Loans from international financial institutions	401,331	-
Total loans and borrowings	9,423,142	7,546,611

Loans from the Central Bank of the Republic of Armenia include loans received from the KfW bank in the scope of “RA agricultural sector support program”, amounts received from the Asian Development Bank in the scope of “Women’s entrepreneurship support sector development program”, as well as loans received from the European Bank for Reconstruction and Development in the scope of “SME’s access to finance program”.

Loans are secured by loans to customers (refer to note 17).

Loans received from RA non-commercial organizations include borrowings from International Financial Program Management Centre (previous Millennium Challenge Fund – Armenian program), Rural Finance Facility-Project Implementation Unit state institution and Small and Medium Entrepreneurship Development National Centre of Armenia.

Loans from international financial institutions include loans from European Fund for Southeast.

The aim of borrowings is the extension of loans to agricultural sector for which is pledged the total amount of loans extended to sub-borrowers by the Organization (refer to note 17).

As of 31 December 2017 the weighted average effective interest rate on amounts due to financial institutions is 7.46% for loans in AMD (2016: 7.37%) and 4.07% for loans in USD (2016: 4.07%).

The Organization did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period.

23 Assets related to grants

In thousand Armenian drams	2017	2016
Balance as of 1 January	51,765	80,904
Increase	-	-
Recognition of income (note 8)	(21,665)	(29,139)
Balance as of 31 December	30,100	51,765

24 Other liabilities

In thousand Armenian drams	31 December 2017	31 December 2016
Due to suppliers	4,903	3,827
Due to personnel	43,245	12,601
Other financial liabilities	15,086	3,465
Total other financial liabilities	63,234	19,893
Liabilities towards members on replenishment the charter capital	88,003	68,236
Other non-financial liabilities	6,132	2,470
Total other non-financial liabilities	94,135	70,706
Total other liabilities	157,369	90,599

Liabilities towards members on replenishment the charter capital represent amounts received from present and possible future members for equity contribution. These amounts are subject to approval by the shareholders during the meeting.

25 Equity

As of 31 December 2017 the Organization's registered and paid-in charter capital was AMD 842,610 thousand (2016: AMD 748,541 thousand). The Organization has 6,397 members (2016: 5,471 members).

The Organization's chapter capital amounts to AMD 561,249 thousand or 67% (2016: 561,249 thousand AMD, 75%) which is the participation of FLCA Trust. The participation of each other members does not exceed 1%.

As of 31 December 2017 and 2016, the Organization did not possess any of its own shares.

During members meeting in 2017 the Organization has not declared dividends.

26 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Organization has complied with all regulations and has completely settled all its tax liabilities.

As at 31 December 2017 there were no legal actions and complaints taken against the Organization. Therefore, the Organization has not made any respective provision related to such tax and legal matters.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Organization has not provided financial instruments with off-balance sheet.

As of 31 December 2017 the Organization did not have contingent liabilities.

Operating lease commitments – Organization as a lessee

In the normal course of business the Organization enters into commercial lease agreements for the building and office area.

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

In thousand Armenian drams	31 December 2017	31 December 2016
Not later than 1 year	11,288	11,549
From 1 to 5 years	-	4,634
Total operating lease commitments	11,288	16,183

27 Transactions with related parties

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

The Organization does not have ultimate controlling party.

A number of organizational transactions are entered into with related parties in the normal course of business. Those transactions include loans and etc.

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

In thousand Armenian drams	2017	2016
	Shareholders and parties related with them	Shareholders and parties related with them
Statement of financial position		
Amounts due to customers		
Loans outstanding at 1 January	129,454	135,462
Issued during the yaer	135,300	55,300
Repaid during the year	(73,230)	(61,308)
At 31 December	191,524	129,454
Less allowance on impairment	(5,236)	(3,165)
Loans outstanding at 31 December	186,288	126,289
Interest income on loans	11,835	11,963
Impairment charge	(2,071)	(1,133)
Advertising and public relations expenses	(2,890)	(2,760)

Loans to related parties are subject to repayment till 2027 and their contractual interest rate is 4-14% (2016: 5-14%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2017	2016
Salaries and bonuses	206,404	162,120
Total key management compensation	206,404	162,120

28 Fair value measurement

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

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

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

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

28.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	317,479	-	-	317,479
Investments held to maturity	-	312,514	-	312,514	308,123
Loans to customers	-	10,080,923	-	10,080,923	10,117,133
Finance lease receivables	-	14,505	-	14,505	14,505
Other assets	-	8,281	-	8,281	8,281
Financial liabilities					
Loans and borrowings	-	9,423,142	-	9,423,142	9,423,142
Other liabilities	-	63,234	-	63,234	63,234

In thousand Armenian drams					As of 31 December 2016
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	578,748	-	578,748	578,748
Loans to customers	-	8,082,119	-	8,082,119	8,103,849
Finance lease receivables		33,102	-	33,102	33,102
Other assets	-	1,182	-	1,182	1,182
Financial liabilities					
Loans and borrowings	-	7,546,611	-	7,546,611	7,546,611
Other liabilities	-	19,893	-	19,893	19,893

Cash and cash equivalents

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

Loans and advances to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.
The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers..

Investment securities held to maturity

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

Loans and borrowings

The fair value of these liabilities is estimated by using the discounted cash flow techniques, applying the rates that are offered for instruments of similar maturities and terms.

28.2 Financial instruments that are measured at fair value

In thousand Armenian drams				As of 31 December 2017
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	390	-	390
Total	-	390	-	390
Financial liabilities				
Derivative financial liabilities	-	607	-	607
Total	-	607	-	607
Net fair value	-	(217)	-	(217)

In thousand Armenian drams	As of 31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	582	-	582
Net fair value	582	582	-	582

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

29 Offsetting of financial assets and financial liabilities

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

As of 31 December 2017 and 2016 the Organization does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

30 Maturity analysis of assets and liabilities

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

In thousand Armenian drams	As of 31 December 2017						
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash and cash equivalents	317,479	-	*317,479*	-	-	-	317,479
Derivative financial assets	390	-	*390*	-	-	-	390
Investments held to maturity	-	-	-	308,123	-	*308,123*	308,123
Loans to customers	103,420	4,411,889	*4,515,309*	5,507,221	94,603	*5,601,824*	10,117,133
Finance lease receivables	236	5,242	*5,478*	9,027	-	*9,027*	14,505
Other assets	8,281	-	*8,281*	-	-	-	8,281
	429,806	4,417,131	*4,846,937*	5,824,371	94,603	*5,918,974*	10,765,911
Liabilities							
Loans and advances							
Derivative financial liabilities	94,801	1,586,502	*1,681,303*	7,586,368	155,471	*7,741,839*	9,423,142
Other liabilities	607	-	*607*	-	-	-	607
	63,234	-	*63,234*	-	-	-	63,234
	158,642	1,586,502	*1,745,144*	7,586,368	155,471	*7,741,839*	9,486,983
Net position	271,164	2,830,629	*3,101,793*	(1,761,997)	(60,868)	*(1,822,865)*	1,278,928
Accumulated gap	271,164	3,101,793		1,339,796	1,278,928		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
	As of 31 December 2016						
Assets							
Cash and cash equivalents	520,148	58,600	*578,748*	-	-	-	578,748
Derivative financial assets	582	-	*582*	-	-	-	582
Loans to customers	63,424	4,095,592	*4,159,016*	3,888,132	56,701	*3,944,833*	8,103,849
Finance lease receivables	1,466	16,864	*18,330*	14,772	-	*14,772*	33,102
Other assets	1,182	-	*1,182*	-	-	-	1,182
	586,802	4,171,056	*4,757,858*	3,902,904	56,701	*3,959,605*	8,717,463
Liabilities							
Loans and borrowings	204,894	1,770,319	*1,975,213*	5,498,183	73,215	*5,571,398*	7,546,611
Other liabilities	19,893	-	*19,893*	-	-	-	19,983
	224,787	1,770,319	*1,995,106*	5,498,183	73,215	*5,571,395*	7,566,504
Net position	362,015	2,400,737	*2,762,752*	(1,595,279)	(16,514)	*(1,611,793)*	1,150,959
Accumulated gap	362,015	2,762,752		1,167,473	1,150,959		

31 Risk management

The Organization's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Organization's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Organization's financial performance.

The aim of the Organization's risk management policy is to identify and analyse risks and manage them efficiently. The Organization periodically revises risk management policy and systems to reflect in the market and follow the best practice.

Risk management is performed by the Management of the Organization according to the lending policy and internal regulation approved by the Board of the Organization. The Management identifies, assesses and undertakes measures for mitigating financial risks.

Risk management structure

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

Board of the Organization

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

General Director

General Director has the responsibility to monitor the overall risk process within the Organization, is responsible for the management of the Organization's assets and liabilities. Also is responsible for the Organization's liquidity risk and for the financial risk management.

Credit Committee

The Credit Committee is responsible for the general risk management in the landing process.

Internal Audit

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

Monitoring and controlling risks is primarily performed based on the Organization's business strategy and market environment, as well as the level of risk that the Organization is willing to accept, with additional emphasis on selected industries.

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Organization's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

The most important risks are credit risk, liquidity risk, market risk and other operating risk. Market risk includes interest rate risk, currency risk and other price risks.

31.1 Credit risk

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

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

31.1.1 Risk concentrations

Geographical sectors

As of 31 December 2017 and 2016 the Organization's credit risks are entirely centralised in the RA.

Industry sectors

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

In thousand Armenian drams	Financial institutions	Crop production	Cattle breeding	Trading	Fish farming	Industry	Other	Total
Cash and cash equivalents	317,479	-	-	-	-	-	-	317,479
Derivative financial assets	390	-	-	-	-	-	-	390
Investments held-to-maturity	308,123	-	-	-	-	-	-	308,123
Loans to customers	-	3,755,634	3,540,083	1,590,883	270,468	526,019	434,046	10,117,133
Finance lease receivables	-	14,505	-	-	-	-	-	14,505
Other assets	-	-	-	-	-	-	8,281	8,281
As of 31 December 2017	625,992	3,770,139	3,540,083	1,590,883	270,468	526,019	442,327	10,765,911
As of 31 December 2016	579,330	2,878,157	2,691,168	1,419,605	266,050	423,446	459,707	8,717,463

31.1.2 Risk limit control and mitigation policies

With the aim to mitigate its credit risk the Organization may define maximum limits on loan extension for the entities cooperating with him. Separate limit may be defined for each entity.

Some other specific control and mitigation measures are outlined below.

Collateral

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

- real estate pledged,
- operating assets of the companies
- movable property: trucks and cars, agricultural mechanisms, equipment,

In order to minimise the credit loss the Organization requires additional collateral and guarantees from the borrower.

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

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Loans collateralized by property	6,361,264	5,412,582
Loans collateralized by guarantees	2,978,587	2,381,274
Loans collateralized by moveable property	806,731	497,699
Unsecured loans	211,417	91,611
Total loans and advances (gross)	10,357,999	8,383,166

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

31.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**As of 31 December 2017**	**As of 31 December 2016**
Loans and advances to customers		
Crop production	1.14%	1.2%
Cattle breeding	0.51%	0.7%
Trading	0.61%	0.8%
Industry	1.97%	2.1%
Other	3.42%	3.7%

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

Past due but not impaired loans

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

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

In thousand Armenian drams					As of 31 December 2017
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Crop production	2,014	2,029	-	-	4,043
Cattle breeding	1,189	296	261	1,720	3,466
Trading	1,859	-	-	-	1,859
Industry	5,744	-	-	-	5,744
Other	5,284	-	-	-	5,284
Total	16,090	2,325	261	1,720	20,396

In thousand Armenian drams					As of 31 December 2016
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Crop production	4,422	3,195	2,154	16,939	26,710
Cattle breeding	10,805	-	9,667	6,826	27,298
Trading	223	3,728	-	-	3,951
Industry	3,474	-	-	15,730	19,204
Other	880	827	-	233	1,940
Total	19,804	7,750	11,821	39,728	79,103

31.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Organization classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2017 and 2016 the Organization does not hold trading portfolio. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, as of 31 December, 2017 and 2016 the Organization has no significant concentration of market risk.

32.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. At 31 December 2017 and 2016 the Organization does not hold floating rate financial assets or liabilities.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

In thousand Armenian drams	As of 31 December 2017			As of 31 December 2016		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+5	57,235	-	5	54,768	-
USD	+5	354	-	5	243	-
EUR	(5)	(57,235)	-	(5)	(54,768)	-
EUR	(5)	(354)	-	(5)	(243)	-

The Organization's foreign currency exchange risk by financial assets and liabilities is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
Assets			
Cash and cash equivalents	149,231	168,248	317,479
Loans to customers	9,695,601	421,532	10,117,133
Net investments on finance receivables	11,283	3,222	14,505
Securities held to maturity	-	308,123	308,123
Other assets	8,281	-	8,281
	9,864,396	901,125	10,765,521
Liabilities			
Loans and borrowings	9,242,505	180,637	9,423,142
Other liabilities	63,040	195	63,235
Total	9,305,545	180,832	9,486,377
Total effect of derivative financial instruments	(431,701)	431,484	(217)
Net position as of 31 December 2017	127,150	1,151,777	1,278,927
Total financial assets	7,855,299	861,582	8,716,881
Total financial liabilities	7,483,733	82,771	7,566,504
Total effect of derivative financial instruments	(320,838)	321,420	582
Net position as of 31 December 2016	50,728	1,100,231	1,150,959

Freely convertible currencies represent mainly US dollar and Euro.

31.3 Liquidity risk

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

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

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Organization's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately

In thousand Armenian drams					As of 31 December 2017
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities					
Loans and borrowings	101,236	2,104,146	8,685,041	167,662	11,058,085
Other liabilities	63,235	-	-	-	63,235
Total undiscounted non-derivative financial liabilities	164,471	2,104,146	8,685,041	167,662	11,121,320
Derivative financial liabilities					
Foreign exchange swap contracts					
Inflow	431,484	-	-	-	431,484
Outflow	(433,625)	-	-	-	(433,625)

In thousand Armenian drams					As of 31 December 2016
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities					
Loans and borrowings	208,437	2,165,745	6,214,699	80,420	8,669,301
Other liabilities	19,893	-	-	-	19,893
Total undiscounted non-derivative financial liabilities	228,330	2,165,745	6,214,699	80,420	8,689,194
Derivative financial liabilities					
Foreign exchange swap contracts					
Inflow	321,420	-	-	-	321,420
Outflow	(320,838)	-	-	-	(320,838)

31.4 Operational risk

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

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

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

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

32 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	As of 31 December 2017		
	Loans and borrowings	**Equity replenishment**	**Total**
As of 1 January 2017	7,546,611	-	7,546,611
Cash-flows	*1,883,386*	*94,069*	*1,977,455*
Proceeds	4,619,783	94,069	4,713,852
Repayments	(2,736,397)	-	(2,736,397)
Non-cash	*(6,855)*	*(94,069)*	*(100,924)*
Foreign exchange gain/loss	19	-	19
Other liabilities	-	(94,069)	(100,924)
Other	(6,874)	-	(6,874)
As of 31 December 2017	9,423,142	-	9,423,142

33 Capital adequacy

The Organization maintains an actively managed capital base to cover risks inherent in the business. The Organization’s capital is controlled by using rules and normative approved by the Central Bank of RA.

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

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

Regulatory capital consists of Tier 1 capital, which comprises charter capital, general reserve, retained earnings including current year profit.

The Central Bank of Armenia has set for credir organizations the minimum value of the total normative capital amounting to AMD 150,000 thousand.