CENTRAL BANK
OF ARMENIA

2016 ANNUAL REPORT



CENTRAL
BANK
OF ARMENIA



ANNUAL REPORT

2016

YEREVAN 2017

Chairman's address



Arthur
JAVADYAN

Chairman of the Central Bank
of Armenia

Dear reader,

This is the annual report of the Central Bank of the Republic of Armenia for 2016. It provides an overview of the activities carried out for fulfillment of the objectives of the Bank and the results achieved during the year.

In the reporting year the price and financial stability in Armenia was further maintained.

On the back of public confidence in the Bank the inflation expectations have fallen significantly, reflecting the decrease in long-term interest rates in the financial market.This has created a ground for recovery of domestic demand and further economic growth.

In a low inflation environment, the Bank gradually reduced the refinancing rate by a total 2.5 percentage points during the year, and we saw its effect transmitted on to the government bond market - in terms of fallen yields - and in the field of economy lending by the financial system as lending rates reduced.

Price stability further contributed to tackling a number of problems that are of top priority for our society and business, such as maintaining consumers' living standard of consumers by sustaining the purchasing power of wages and other income, restoring the competitiveness of enterprises and ensuring positive developments in the tradable sector.

The reporting year was also prominent in terms of strengthening the financial stability - another ultimate objective of the Bank. The banks were able to smoothly meet the new capital threshold requirement, which is aimed at enhancing financial stability of the banking system, improving competitiveness among banks and increasing the role of the banking sector in the economy in the long run.

Consolidation in the banking system brought in 4 bank merger transactions, resulting in expanded opportunities for financing large-scale business projects by banks, a new ground to improve accessibility and affordability to financial services and enhanced ability of banks to absorb financial risks at the expense of their own resources.

The financial system boasts more than sufficient liquidity and capital adequacy to finance various prospective projects in the economy without detriment to the financial stability. The policy the Bank is conducting contributes to the creation of long-term monetary resources. Successful implementation of mortgage, renewable energy and small and medium size enterprise lending programs in key areas of the economy secured the sustainability of such projects and created a basis to start new ones. In 2016, the Bank signed three new agreements with the European Investment Bank and the KFW Bank, two of which steered to the small and medium size enterprise, and the other one for the housing finance development.

In 2016 farming households continued benefiting subsidized credit programs. Other credit programs designed for various social groups under government subsidy, such as "Affordable Housing for Young Families", "Loans to Students for Education", "Consumer Loans to Military and Police Officers for Acquiring Household Appliances" were also in pipeline.

All financial system participants performed to ensure growth in key financial indicators.

Insurance companies have demonstrated sufficient activity and secured a 13.5% growth in assets. In 2016, some changes were made in the field of third party liability insurance contracts, the most noteworthy of

which included the introduction of the mechanism of self-regulation of accidents and modifications in the bonus-malus system in the MTPL compulsory insurance contracts.

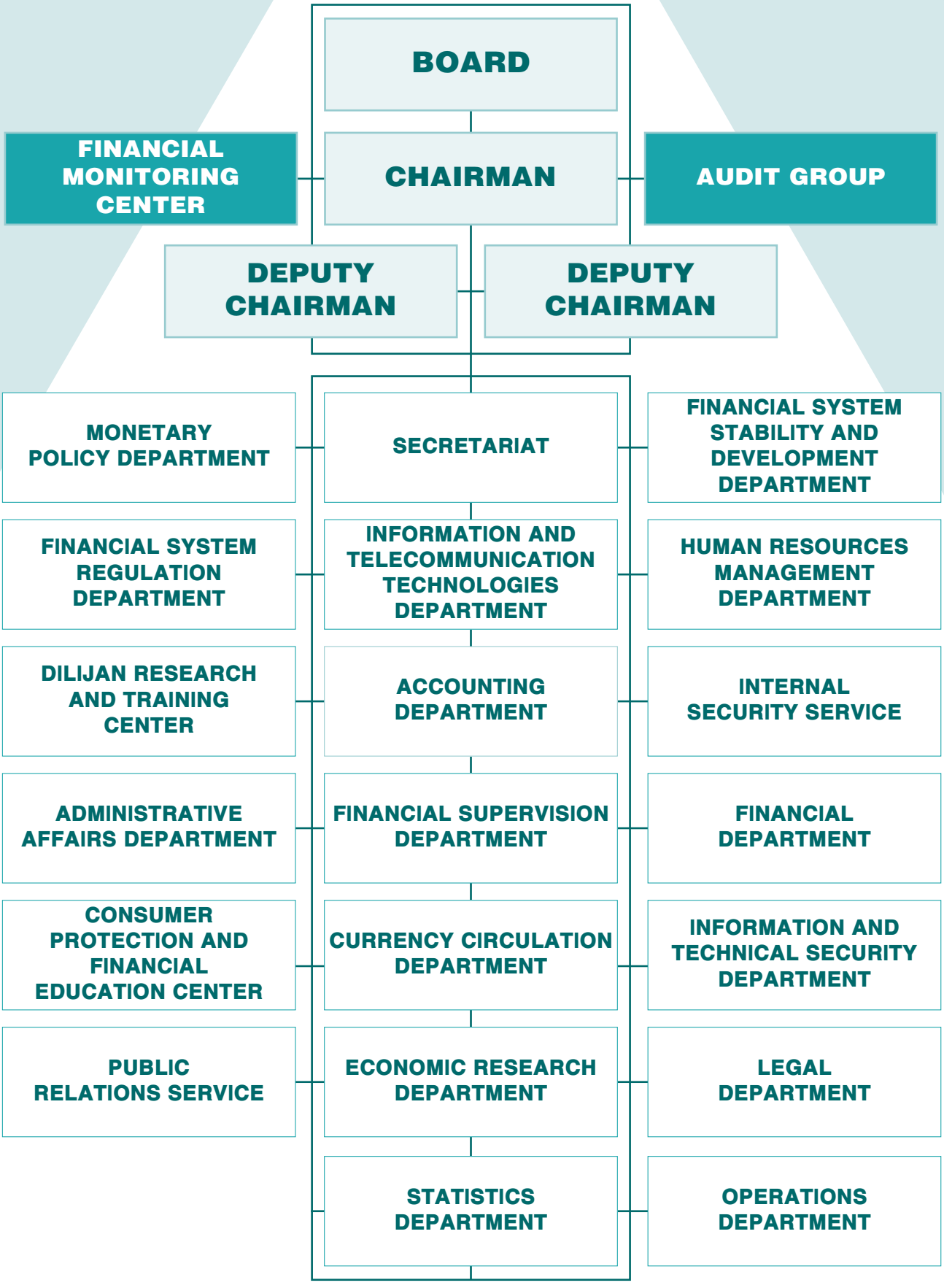
In the year under review the pension funds have doubled, reflecting increased confidence in the system and proof of an effective resource management.

The legislative changes introduced during the year will, no doubt, facilitate international cooperation in the capital market in the forthcoming years as well as help promote and develop derivative financial instruments.

In 2016 the Bank remained proactive in defending consumer rights and lawful interests in the financial system and continued activities in the framework of the national strategy for financial education - another area of priority.

In the end, let me sound especially articulate by saying that the results we have would not be achieved without concerted and effective work of the Bank personnel which always seeks to meet high corporate governance and professional standards.

Structure
of the Central Bank


BOARD
FINANCIAL MONITORING CENTER
CHAIRMAN
AUDIT GROUP
DEPUTY CHAIRMAN
DEPUTY CHAIRMAN
MONETARY POLICY DEPARTMENT
SECRETARIAT
FINANCIAL SYSTEM STABILITY AND DEVELOPMENT DEPARTMENT
FINANCIAL SYSTEM REGULATION DEPARTMENT
INFORMATION AND TELECOMMUNICATION TECHNOLOGIES DEPARTMENT
HUMAN RESOURCES MANAGEMENT DEPARTMENT
DILIJAN RESEARCH AND TRAINING CENTER
ACCOUNTING DEPARTMENT
INTERNAL SECURITY SERVICE
ADMINISTRATIVE AFFAIRS DEPARTMENT
FINANCIAL SUPERVISION DEPARTMENT
FINANCIAL DEPARTMENT
CONSUMER PROTECTION AND FINANCIAL EDUCATION CENTER
CURRENCY CIRCULATION DEPARTMENT
INFORMATION AND TECHNICAL SECURITY DEPARTMENT
PUBLIC RELATIONS SERVICE
ECONOMIC RESEARCH DEPARTMENT
LEGAL DEPARTMENT
STATISTICS DEPARTMENT
OPERATIONS DEPARTMENT

The Board
of the Central Bank of Armenia





Arthur
JAVADYAN
Chairman
of the Central Bank



Nerses
YERITSYAN
Deputy Chairman



Vakhtang
ABRAHAMYAN
Deputy Chairman



Oleg
AGHASYAN



Ashot
MKRTCHYAN



Armenak
DARBINYAN



Arthur
STEPANYAN



Arkadi
KHACHATRYAN

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THE CENTRAL BANK OF ARMENIA

ABOUT THE CENTRAL BANK

The primary goal of the Central Bank of the Republic of Armenia is to maintain price stability in the Republic of Armenia, according to the Republic of Armenia Law on the Central Bank. To achieve this goal, the Bank has a function of taking measures to attain price stability while formulating, approving and implementing monetary policy programs.

Mission of the Bank:

- be an internationally recognized effective institution that is independent, dynamic, prestigious, transparent and knowledge-based, and be an onlooker of development trends in global financial system,
- maintain institutional capacity to timely respond to the change in economic environment and effectively influence the economic processes,
- support sustainable macroeconomic development of the country, while being an important partner to the Government of Armenia in facing economic challenges.

Objectives of the Bank:

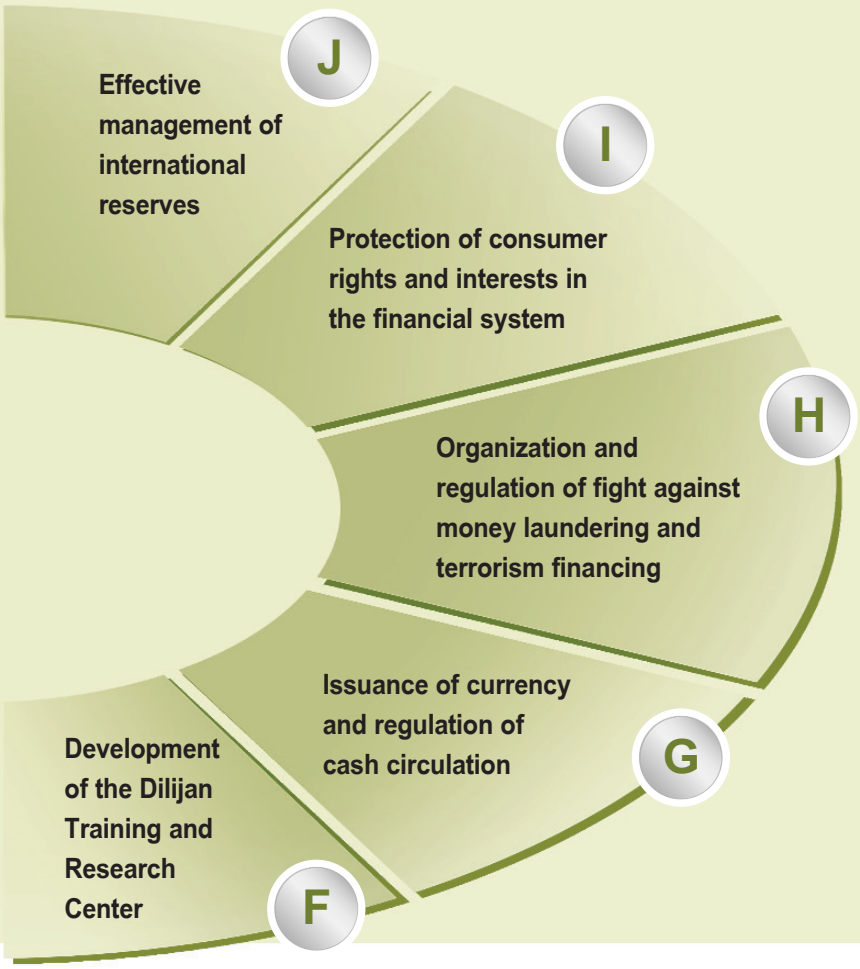
- ensure a stable and normal-functioning financial system, including create conditions for a stable, liquid, solvent and normal-functioning banking sector in Armenia,
- create and develop an efficient payment and settlement system,
- issue the currency of the Republic of Armenia and organize and regulate the currency circulation,
- organize and regulatea framework for combating money laundering and financing of terrorism,
- create conditions for protecting interest of investors in securities, providinga framework for fair pricing of securities in the market and making sure a regulated, sound, open and trusted securities market is in place for normal operation and development, and
- providing essential conditions for protection of rights and lawful interests of consumers of financial services.

Strategic directions



To achieve its objectives, the Bank:

- provides banking services to the Government,
- acts as financial agent and consultant to the Government,- licenses banks, other entities, as and when required by the law, recognizes organizations as a financial group, and regulates and oversees their activities,
- makes loans to banks as a lender of last resort,
- regulates and oversees activities of payment and settlement organizations, including activities of payment and settlement service providers which are non-bank entities,
- owns, uses and disposes international reserves of the Republic of Armenia,
- collects, compiles and publishes monetary and financial system statistics,
- collects, surveys and analyzes information regarding legalization of criminal proceeds and terrorism financing; exchanges information and delivers it to local authorities and international organizations and, where provided for by international treaties of the Republic of Armenia, to competent authorities of other countries.



REVIEW OF STRATEGIC DIRECTIONS

The 2015-2017 strategy of the Bank establishes that as an independent institution as well as guarantor of price and financial stability in the medium and long run, the Bank remains committed to fulfilling its primary objective by looking to maintain sustainable economic development, integrate to international markets and play an important role in providing financial services at the regional level.

For effective handling of the tasks, the Bank spent further efforts in 2016 to introduce and apply best international experience to the financial sector while pursuing diversity and sustainable development in the sector.

In 2016 the Bank prioritized the following objectives:

Maintaining price stability

The monetary policy the Bank carried out in 2016 under the inflation targeting strategy was steered to maintaining price stability and anchoring public expectations around the inflation target. In 2016, inflation developments unfolded, generally incurring the impact of the external sector's deflationary environment transmitted onto domestic prices in 2015-2016, relatively low prices of agricultural products as a result of high growth in agriculture sector in Armenia, weak domestic demand due to a decrease in remittances from abroad, as well as reduced gas price in July of 2016. Given the effects mentioned above and the fact that deflationary risks were prevailing in the second half of 2016, the Bank implemented expansionary monetary policy during the year by making eight cuts of the refinancing rate for a total of 2.5 percentage points. In doing so, the Bank preferred a gradual easing of monetary conditions, substantiatingt hat low inflation would positively affect the reduction of inflationary expectations, sustainability of purchasing power of income and reduction of

company costs. Consistent monetary policy conducted by the Bank also facilitated a notable mitigation of inflation expectations that were high in the beginning of the year, a fall in long-term market rates and reduction of the dollarization rate in the economy. The monetary policy implemented in 2016 will contribute to the gradual elimination of deflation environment over the medium-term perspective, and the 12-month inflation rate will return to the target in the forecast horizon.

Maintaining financial stability

In 2016 the Bank continued its efforts to strengthen financial stability and further improved regulatory and supervisory frameworks as part of the financial stability strategy.

Relative to the previous year, the financial system assets-to-GDP ratio and the economy lending-to-GDP ratio have risen by 12.3 and 6.6 percentage points to 89.1% and 50.0%, respectively.

Compared to other countries in the region, financial intermediation in Armenia increased at a faster rate. In 2016, the financial system demonstrated steady growth patterns - a significant increase in the carrying amount of the main indicators and improved performance of financial stability indicators.

As the largest pillar of the financial sector, the banking system reported growth of assets by 15.6%, loans by 15.4% and capital by 27.1%. Moreover, concurrent with credit growth, there has been a 1.1 percentage point decrease in the share of non-performing loans (particularly, "watched", "non-standard" and "doubtful" risk categories) to 6.7% in total.

Other financial system participants (credit organizations, insurance companies, investment companies) have also operated with profit, securing the growth in key indicators. Net assets of mandatory pension funds managed by asset managers have doubled.

Other objectives of the Bank

Issuing currency of the Republic of Armenia, and organizing the currency cycling: In 2016, to improve the quality of notes and coins in circulation, changes were made to the regulations that govern the process of sort out of the notes and coins at banks.

During the year the Bank continued efforts on developing a new information system "Banknotes having passed expertise in the Central Bank". The Bank now has a state-of-the-art facilities for banknote expertise.

The Bank issued commemorative coins of precious metals, which are dedicated to the anniversaries of renowned Armenians and landmark events.

At an international competition "Coin Constellation 2016" the commemorative coin "The Centenary of the Armenian Genocide" earned the first prize in the nomination "Coin of the Year".

Organizing and regulating a framework to combat money laundering and terrorism financing: The year was remarkable for progress achieved in cooperation with international organizations. In particular, an interim assessment report of the Republic of Armenia was presented and approved at the plenary session of MONEYVAL Committee in December 2016, as part of the 5th round of assessment of national framework for AML/CFT,and the compliance report of the Republic of Armenia, at the 8th plenary session of the Conference of the parties to the 2005 CETs No. 198 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism(the Warsaw Convention), held in October 2016.

Protection of consumer rights and lawful interests in the financial system: In 2016 the Bank took a handful of measures aimed at improving and developing the regulatory framework in this field, overseeing business conduct of financial institutions and improving financial awareness and the level of financial literacy. The measures were intended for different target groups in capital Yerevan and regions of Armenia. For the success achieved in this field, Armenia has been recognized a regional winner at the "Global Inclusion" a contest organized by the Child & Youth Finance International.

Management of international reserves: In 2016 the level of international reserves of the Republic of Armenia further complied

with international criteria to foreign currency reserves, particularly in terms of the economy's ability to absorb possible shocks. In 2016 the international reserves of the Republic of Armenia secured about six months of coverage for imports and more than seven years of coverage for servicing short-term (up to one year) liabilities. The Bank continued managing the reserves on a basis of best international practice and least risk involvement.

Institutional development

In 2016 activities for institutional development were steered to ensure the business continuity of the Bank and the entire financial system, planning for infrastructure recovery, increasing the professional integrity of management and personnel.

The Bank enhanced its bilateral and multilateral cooperation with partner institutions, as well as international financial organizations.

In 2016 the Dilijan Training and Research Center(hereinafter Dilijan TRC)had significant achievements and success in three main areas - research, international cooperation and social responsibility.

As of the end of the year, about 22.8% of the Bank's staff (178 employees) worked at the Center.

02

MAINTAINING PRICE STABILITY

MONETARY POLICY

Primary goal of the Bank

According to Article 4 of the Republic of Armenia Law on the Central Bank, **the primary goal of the Bank is maintaining price stability**, whereby the Bank contributes to the implementation of economic policy for a long-term sustainable economic growth. Price stability implies a certain level of inflation which the Bank accepts as a target level of inflation or inflation target. In Armenia, the inflation target is set in the monetary policy programs of the Bank, medium-term expenditures frameworks of the Armenian Government, the Republic of Armenia laws on state budget as well as sustainable development projects. The Bank is independent in deciding on a strategy for conducting monetary policy and intermediate and operational targets as well as monetary instruments.

In the context of inflation targeting strategy of the Bank, a projected level of inflation serves an intermediate target and short-term interest rate serves an operational target. The 7- day repo agreement is the main instrument of monetary policy of the Bank, the interest rate (refinancing rate) of which is set by the Board of the Bank according to timetable. Interest rates of the monetary policy instruments take effect on the day following the setting.

Inflation targeting strategy strongly hightlights the Bank's communication to the public, one of the main ways of which is through publication of inflation reports on a quarterly basis[1]. The first part of the inflation report contains the next quarter's monetary policy program and the second part presents the status implementation of the previous quarter's monetary policy program steered to attain the inflation target.

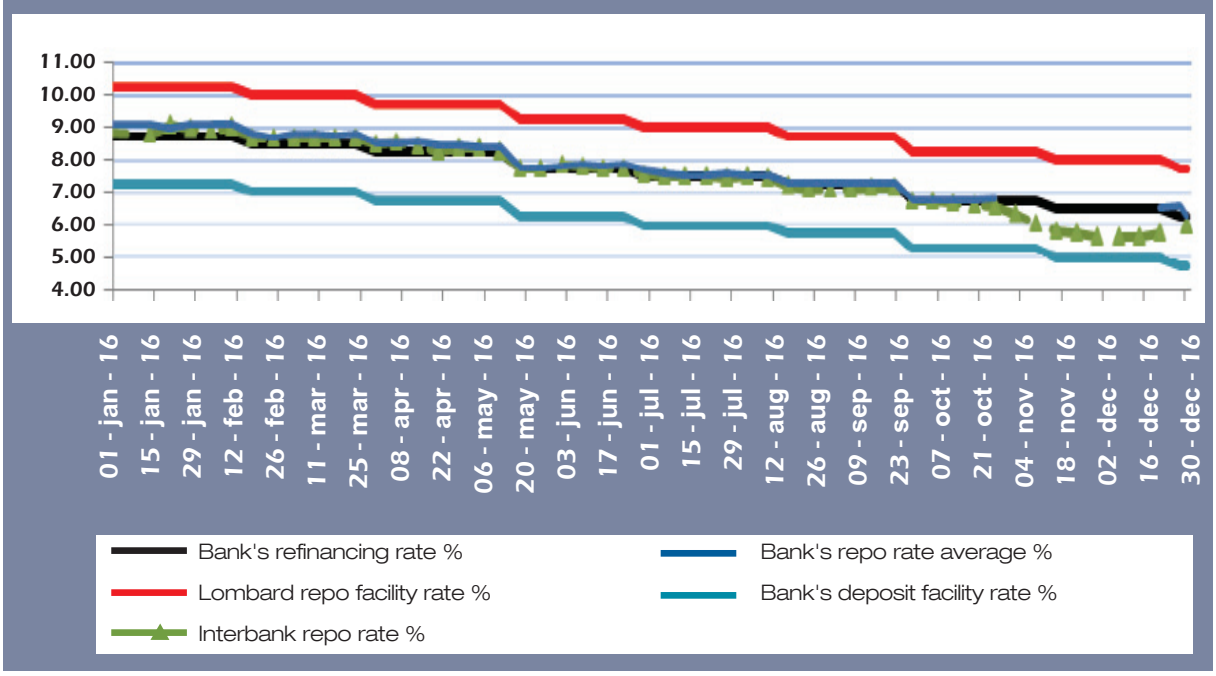
1 Details are available in the Inflation Report of the Central Bank: www.cba.am

Fulfilling the primary goal

According to the Q1, 2016 monetary policy program, **weak deflationary environment observable since the end of the previous year was to generally persist over the first half of 2016** as significant inflationary pressures from both the domestic economy and the external sector were not likely. Then, the 12-month inflation rate was to expand gradually, approaching and stabilizing around the target in the forecast horizon.

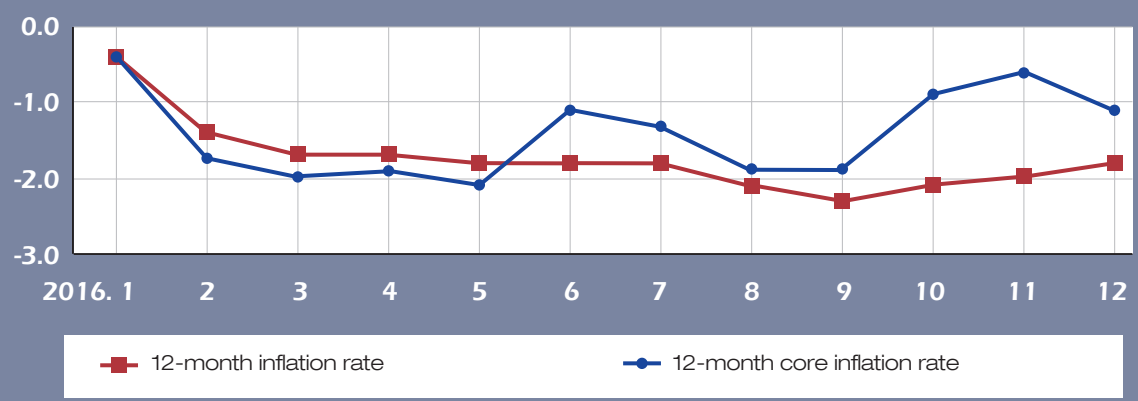
The economic environment remained deflationary in 2016 determined by the effect of deflationary patterns in international commodity markets in 2015-2016 spilled over to the domestic prices, relatively low prices of agricultural products as a result of high growth in agriculture sector in Armenia, sluggish domestic demand due to a decrease in remittances from abroad, as well as reduced gas price in July of 2016. Given the influence factors mentioned above and that deflationary risks were prevailing in the second half of 2016, **the Bank implemented expansionary monetary policy throughout 2016, graduallylowering the refinancing rate from 8.75% earlier the year to 6.25%** *(see Figure 1)*.

Figure 1: In 2016 short-term interest rates were generally responsive to changing patterns of the main policy rate of the Bank



Influenced by these factors and expansionary monetary policy by the Bank, **the 12-month inflation rate followed a downward path up until October, reducing to -1.9% in September 2016 from -0.1% in late 2015; then the deflationary environment subdued and the year ended with inflation reaching -1.1%** *(see Figure 2)*. The 12-month core inflation rate behaved similarly when it fell from 0.7% at the end of the previous year to -2.2% in September but rose slightly to -1.8% at the yearend.

Figure 2: In 2016 the deflationary environment persisted, yet it mitigated notably in the fourth quarter



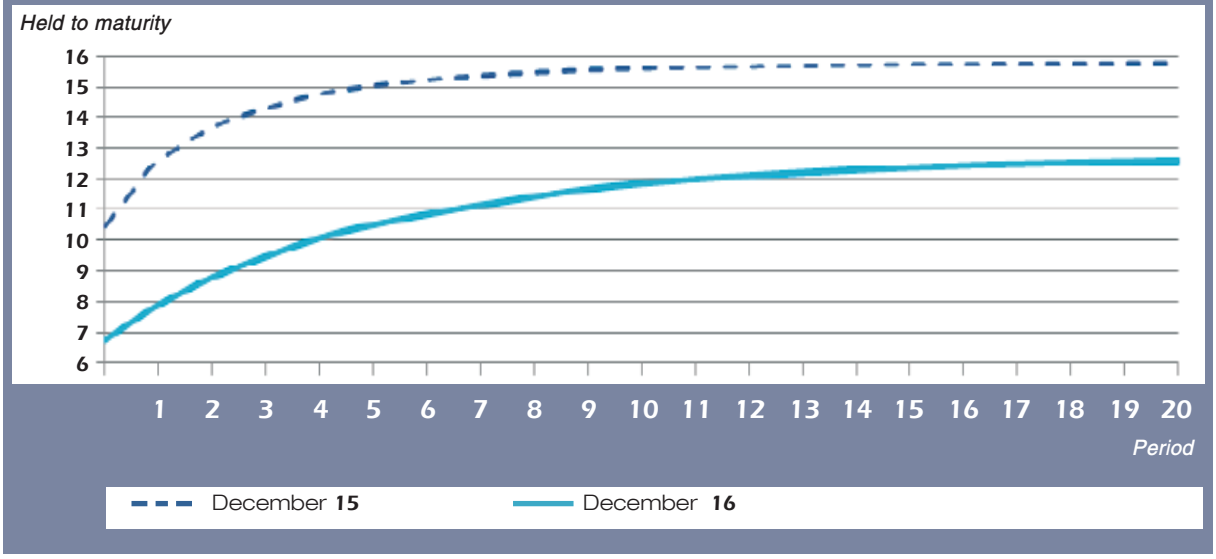
Consistent policy implementation assisted the Bank to somewhat mitigate the deflationary patterns, notably ease high inflation expectations observable at the start of the year and reduce long-term market rates, while contributing to some recovery of domestic demand and a decrease in dollarization of the economy.

At the same time, the Bank estimates, eased monetary conditions have created enough incentives in order to overcome the deflationary environment in 2017 and fulfill the inflation target in the forecast horizon.

In the financial market in 2016 interest rates were primarily consistent with the behavior of the refinancing rate of the Bank. Only in the yearend the interbank repo rate stood below the policy rate for a while mainly due to excess liquidity at the time since the Bank had lowered the reserve requirement ratio for banks to replenish their capital levels *(see Figure 1)*.

In 2016 interest rate channel of transmission was most effectivein the government bond market where yields have slumped an average 4.0 percentage points following a 2.5 percentage point decrease of the refinancing rate and continued reduction in inflation expectations during the year *(see Figure 3)*.

Figure 3: The government bond yield curve shows that interest rates have notably reduced along the entire curve



MONETARY POLICY: IMPROVEMENT AND ADVANCEMENT

The result of development and refinement of the Forecast and Policy Analysis System (FPAS) of the Bank can be achieved if its quantitative and qualitative components are further improved. This helps the Board of the Bank to have a clear understanding of the macroeconomic situation and make more informed decisions about directions of the monetary policy.

Improving the FPAS in a longer-term perspective has two continuous aspects:

- Inclusion of specificities of the Armenian economy into the current system,
- Advancement of the current system through transition to the Dynamic Stochastic General Equilibrium (DSGE) model framework.

The following research was done in the framework of the first aspect:

1. Identification of cause-and-effect relations in inflationary expectations and true reflection in the FPAS,
2. Assessment of the financial gap and inclusion in the FPAS,
3. Study of the debt level and the effects of interventions, assessment of the risk premium and how they affect the expectations, and inclusion in the model framework.

The second aspect involved the following activities:

1. Building the DSGE 2 model for the labor market in consideration of specificities of the Armenian economy, with informal employment included in the first model and migration and characteristics affecting the Russian

economy, in the second. The use of characterizing the economy of this country is, in fact, an extension of the model used for the external sector as a way to identifying and gauging the channels and extent of impact of the Russian economy[2].

2. The preliminary work for building the DSGE 2 model for the external sector, using endogenous modeling for foreign debt and risk premium.
3. The preliminary work for building DSGE 2 models that consider the behavior of the real sector - the first is for optimal monetary policy choice where heterogeneous firms are concerned, and the second is for studying the problems of investment and capital accumulation and identifying the level of a balanced economic growth.

In addition to these activities, considerable work has been done **to improve the existing model framework** to achieve automated database coordination and data collection, uses of new software solution for the model framework and improved reporting system. The practical implementation of these works is expected to complete in 2017.

Statistics

The Bank collects, compiles and publishes the monetary and financial sector statistics and external accounts statistics, in pursuit of the objectives laid down in the Republic of Armenia Law on the Central Bank. The Bank uses the statistics internally in implementation of its mandate for formulating a monetary policy, maintaining price stability, developing payment and settlement system, financial supervision and such other functions and publishes it for external users such as government departments, financial market participants, international institutions, mass media and general public.

In 2016 the Bank carried on delivering timely and accurate statistical data to the public. Further work was done to broaden the scope of and accessibility to statistical data,improve the methodology for data collection and alignment with international criteria[3].

2 "Labor market frictions in the estimated DSGE model for Armenia": https://www.cba.am/EN/panalyticalmaterialsresearches/Labor_market_model_DSGE.pdf, «Migration in the estimated new Keynsian DSGE model for Armenia and Russia»`https://www.cba.am/EN/panalyticalmaterialsresearches/Migration_DSGE_CBA.pdf

3 The Bank publishes the statistical data in section "Statistics" of its homepage (www.cba.am).

New data collecting and calculation

In 2016 the Bank introduced and a new system for receiving and processing detailed data from banks, which is currently being tested. This will add more than 100 new indicators to the current database the Bank uses.

In 2016 a pilot project ADICS (Automated Data Input and Crosscheck System) started and is in a testing phase at the Bank. The project will help refine the process of receiving of information from reporting entities and improve the quality of data obtained.

To improve the BOP financial account and international investment position statistics, the Bank embarked on receiving additional data on foreign investments by non-financial companies from the National Statistics Service.

To get more quality consumer price index data, an agreement was reached with the NSA authorizing the Bank to calculate the shares of financial services so included in the consumer basket and transfer them to the NSA.

In 2016 the Bank embarked on collecting and processing Big Data on the real sector of the economy in order to increase the efficiency and effectiveness of forecasting macroeconomic indicators and offer more streamlined solution to day-to-day tasks.

Efforts were spent to develop and introduce a new information system of Credit Registry, and the system's test environment was put into operation by the end of 2016.

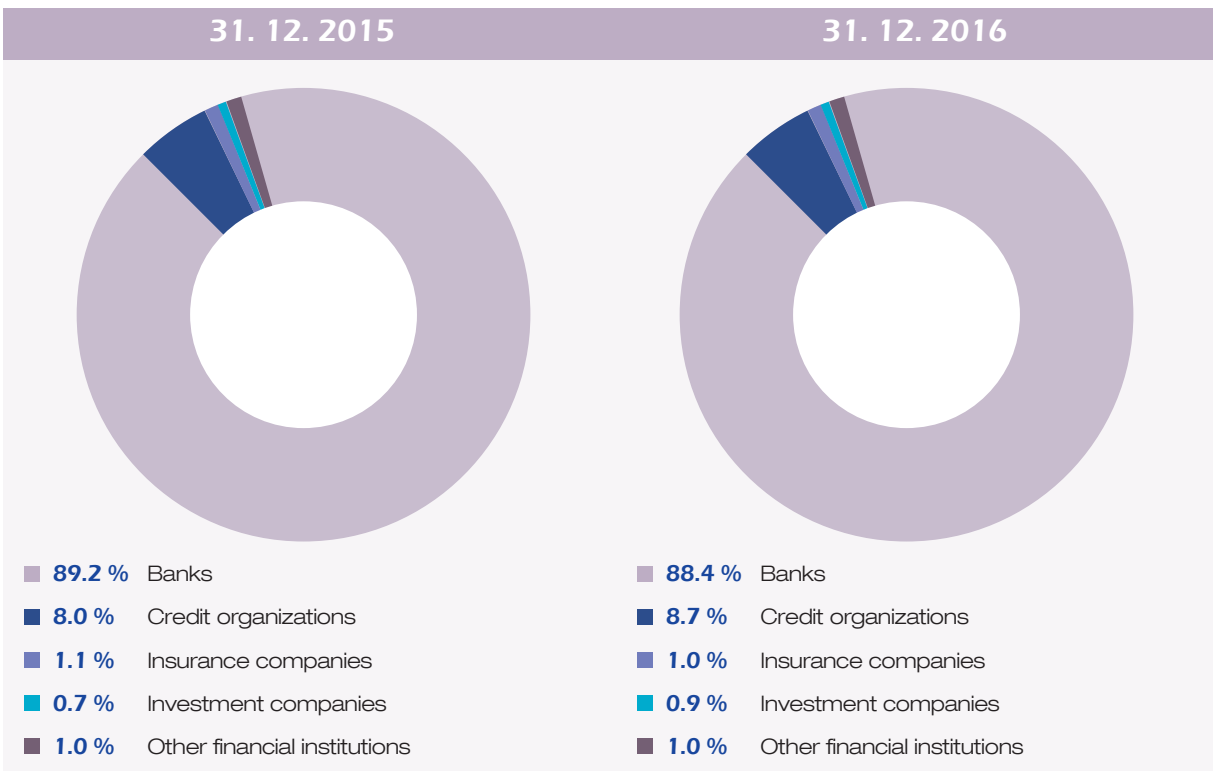
MAINTAINING FINANCIAL STABILITY

FINANCIAL SYSTEM STABILITY, REGULATION AND SUPERVISION

Year 2016 marked sustainable development trends in the financial system of the Republic of Armenia supported by a significant increase in the carrying amount of the main indicators. Relative to the previous year, the financial system's assets-to-GDP and economy loans-to-GDP ratios have risen by 12.3 and 6.6 percentage points to reach 89.1% and 50.0%, respectively.

The banking system remains the largest pillar of the financial sector as it accounts for 88.4% of assets of overall financial sector *(see Figure 4)*.

Figure 4: Assets of the financial sector by financial institution



In 2016 assets of the banking system grew by 15.6%, total capital by 27.1% and total liabilities by 13.5% to AMD 3 trillion 994.5 billion, AMD 653.6 billion and AMD 3 trillion 341.0 billion, respectively, at the end of the year. The amount of loans to the economy increased by 15.4% to AMD 2 trillion 319.5 billion at the yearend. According to supervisory reports submitted to the Bank, the banking system operated with profit - the return on assets (RoA) and return on equity (RoE) amounted to 0.9% and 5.7%, respectively.

Interest rates on loans provided by the banking system showed a declining trend during the year.

Figure 5: Interest rate of loans to legal entities

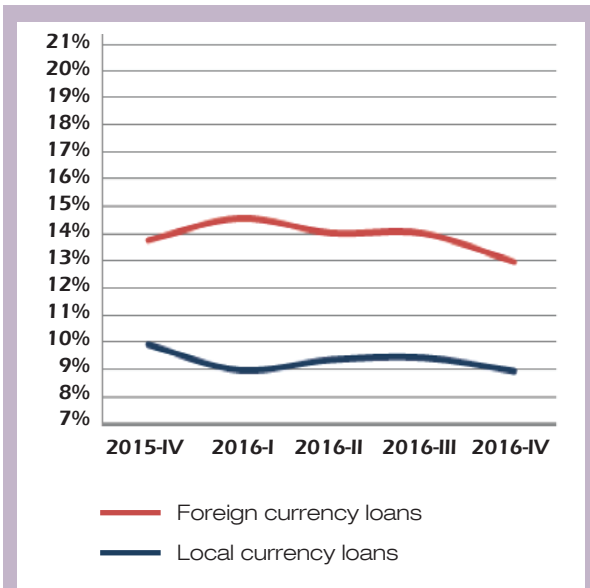
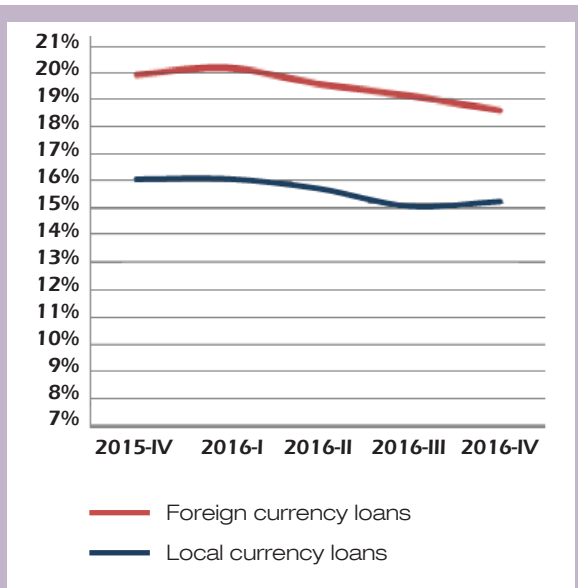


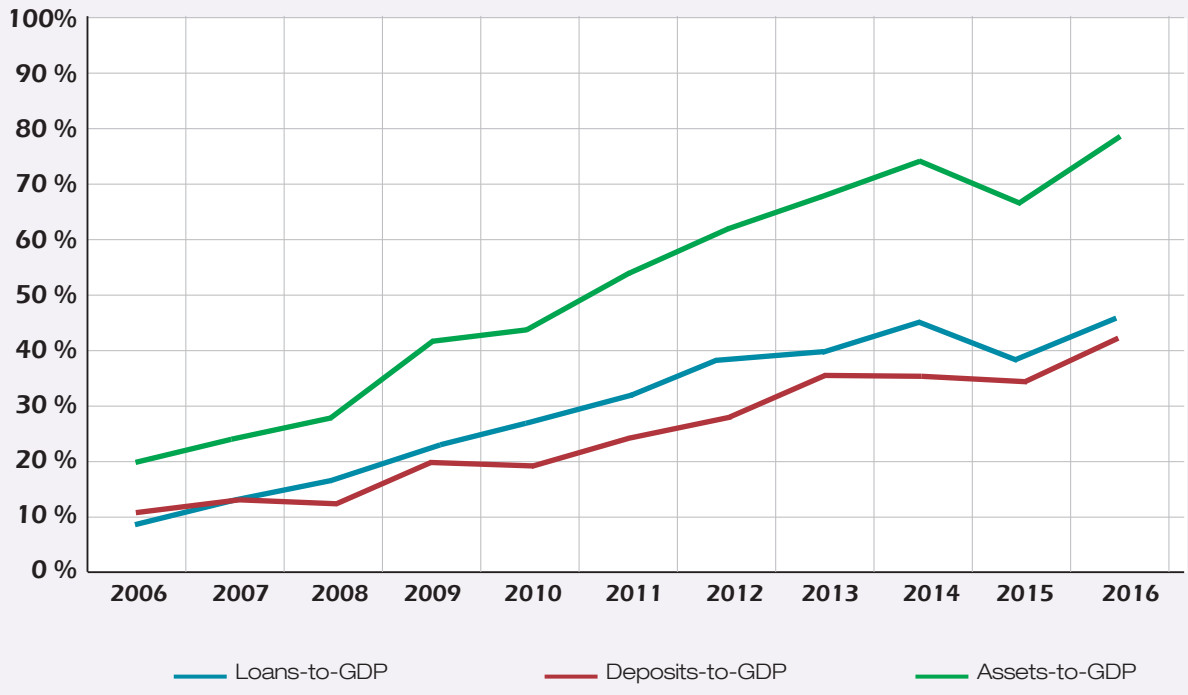
Figure 6: Interest rate of loans to individuals



Stability indicators of Armenia's banking system have improved, with the total regulatory capital adequacyratio increased by 3.8 percentage points to 20.0% (minimum threshold: 12.0%), the total and current liquidity ratio increased by 4.4 and 28.4 percentage points to 32.5% and 170.8% (minimum thresholds: 15.0% and 60.0%), respectively. The banking system assets-to-GDP and economy loans-to-GDP ratios have risen by 10.3 and 6.0 percentage points in relation to the previous year to 78.8% and 45.8%, respectively *(see Figure 7)*.

There has been a 1.1 percentage point decrease in the share of non-performing loans (particularly, "watched", "non-standard" and "doubtful" risk categories) to 6.7% in total.

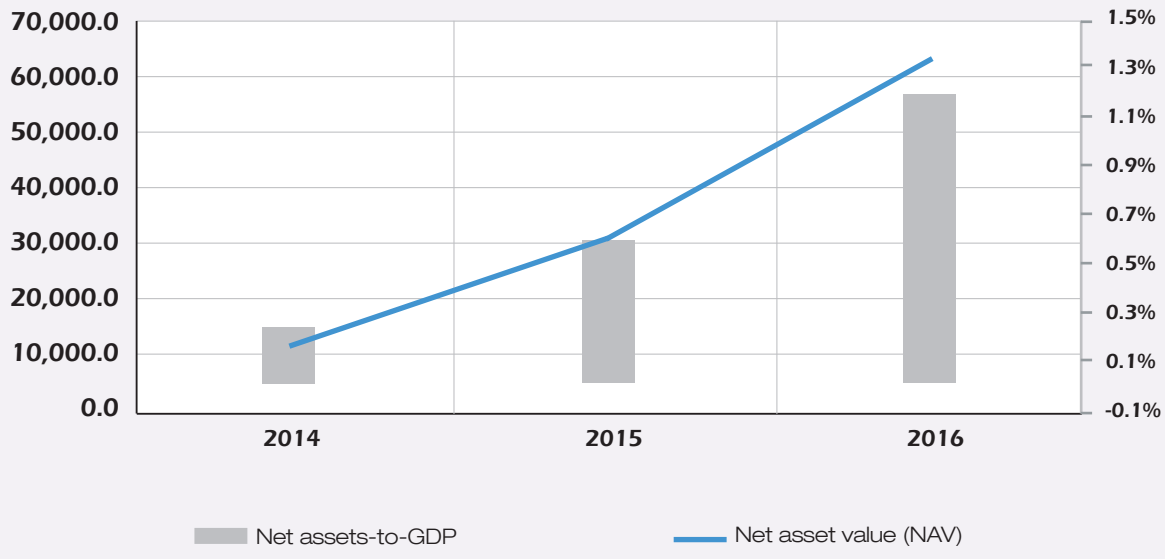
Figure 7: Banking system's financial intermediation



Other participants of the financial market also demonstrated good performance in their key indicators during the year. In particular, the total capital of **credit organizations** grew by 37.7%, liabilities by 19.0%, assets by 27.0%. The total capital of the **insurance companies** increased by 16.0%, liabilities by 11.8%, assets by 13.5%. **Investment companies** reported 56.7% growth of total capital, 43.1% growth of liabilities and 45.1% growth of assets. The net assets of mandatory pension funds managed by asset managers have doubled to AMD 63 billion.

At the end of the year, the net assets-to-GDP ratio of pension funds was 1.2%.

Figure 8: Pension funds' net assets value dynamics



In 2016 the Bank continued supervision through off-site and on-site inspection over the activities of financial institutions with the aim to maintain financial system stability, evaluate financial market participants' exposure to risks, legal and normative framework compliance and to make sure an effective framework to combat money laundering and terrorism financing is in place and interests of consumers in the financial market are duly protected.

The main task of off-site supervision is to monitor day-to-day activities and performance of financial institutions on the basis of reports, information, claims and other deliverables from them, make analysis of their financial condition, figure out unacceptable risks, check compliance of their activity with the legal framework and promptly react, if necessary.

On-site inspections are provided for both comprehensive (all-purpose) and target (specific-area) examinations. In 2016 the supervisory arm of the Bank further spent efforts to identify and evaluate the financial institutions' exposure to risks, business conduct, accuracy of reportable information, and so on. During 2016 the Bank completed 190 on-site inspections, of which:

- 1 all-purpose inspection and 10 target inspections at banks
- 4 all-purpose inspections at credit organizations
- 2 all-purpose inspections, 6 target inspections at insurance companies and 400 inspections of insurance agents

- 4 all-purpose inspections at investment companies
- 163 inspections at other financial system participants (exchange offices, pawnshops, payment and settlement organizations and etc.).

Infringements revealed through supervision were remedied and measures were taken to prevent the ones in the future.

Activities as part of improvement of the financial system oversight during 2016 included:

- Efforts to develop and finally introduce the approach to risk-based supervision in the financial market of Armenia after developments in the world financial markets prompted transition from a rules-based supervision model to a risk-based and forward-looking supervision. Reforms are aimed at streamlining supervisory capacities in order to achieve increased effectiveness in carrying out supervision.
- In 2016, in the context of maintaining and developing financial stability, the Bank conducted a **crisis management simulation exercise** in collaboration with the World Bank Financial Sector Advisory Center Vienna (FinSac). The purpose of the exercise was to help participants - management as well as other relevant staff of the Bank - to identify potential problems and how to solve them in the time of financial crisis management and to become prepared for emergencies.

In 2016, the regulatory framework of the financial system incurred further changes and supplements with regard to the following laws of the Republic of Armenia:

Law on changes and supplements to the Civil Code, Law on supplements to the Criminal Procedure Code, Law on supplements to the Criminal Code, Law on amendment to the Law on Compulsory Enforcement of Judicial Acts, Law on changes and supplements to the Law on State Registration of Property Rights, Law on changes and supplements to the Law on Securities Market, Law on amendment to the Commercial Arbitration, Law on amendment and change to the Law on Bankruptcy, Law on changes and supplements to the Law on Bank, Credit Institution, Investment Firm, Investment Fund Manager and Insurance Company Bankruptcy, Law on supplement to the Civil Procedure Code, and the Laws on amendment to the Law on Banking Secrecy.

The amendment to these laws pursued to:

1. tackle the problems associated with collateral, which may be impediment to financial institutions and customers,
2. promote the development of the market of derivatives and other financial instruments in Armenia,
3. develop legislation on securities market abuse in order to make the market more transparent and protected, make it in line with the expectations of foreign investors, establish adequate sanctions for abuses and make sure an effective international cooperation is in place,
4. prevent the organizing and administration of, and the involvement of individuals with, financial pyramids.

Changes were made to a number of sub-legislative acts, including the Republic of Armenia Law on Banks and Banking, after the Bank appeared with a legislative initiative to introduce a variety of Basel 3 requirements in consideration of buffers, a leverage standard under Basel 3 as well as certain tools of macro-prudential policy proposed by the Bank, particularly the possibility to establish the debt-to-income and loan-to-value ratios.

In pursuit of increasing the effectiveness of risk management at banks, further work was done to implement Basle 3, and the introduction of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), which are new Basle approaches to liquidity risk management, was part of the work. To this effect, starting from August 2015, banks file monthly reports to the Bank. This allows the Bank to assess whether implementing one normative requirement or another is appropriate as well as to identify problems inherent in the domestic banking system and offer solution thereto.

In 2016, in implementation of consolidated supervision, the Bank developed and adopted policies and regulations which established procedures for recognition and de-recognition of financial groups, regulatory requirements applicable with regard to such groups, including the minimum requirements to internal control and reporting by the financial groups.

PAYMENT AND SETTLEMENT SYSTEM

In 2016 the Bank continued activities in maintaining a reliability and development of payment and settlement systems, expanding the value of non-cash payments and improving the regulatory framework for these systems.

Electronic payment system

In 2016 the Bank approved the "Rules for Electronic Payment System", which provided the system participants with more clearly specified requirements to and procedures for performance, the rights and obligations of participants and the system operator. At the same time, the electronic message formats used in the system were revised, specifying the information necessary for the execution of payments. This has resulted in increased efficiency of payments.

In the period under review, relative to the same reference period last year, the value of average daily money transfers executed through the Electronic Payment System of the Bank has reduced by 4% to AMD 60.4 billion but the number has increased by 10% to 15352 transactions. As a result, the average value per electronic transfer amounted to nearly AMD 4 million.

Securities accounting systems

In 2016, the ISO 6166 standard was introduced to the Government Securities Accounting and Settlement System, making it possible for the Armenian treasury bills to be awarded the international securities (ISIN) codes. This will allow the government bonds to be tradable in international depository systems while increasing their attractiveness to foreign investors.

To make execution of securities transactions in the Republic of Armenia more comfortable and faster for foreign investors, relevant agreements entitling to govern the procedures for cash and securities settlements were signed with "Clearstream", a banking group.

Money transfer systems

As of the end of 2016, two domestic companies had permission to create and operate a payment and settlement system in the Republic of Armenia. Foreign payment systems remain important players in the field of international money remittances. As of the end of 2016, local banks and payment and settlement organizations had joined a total of 14 foreign money transfer systems.

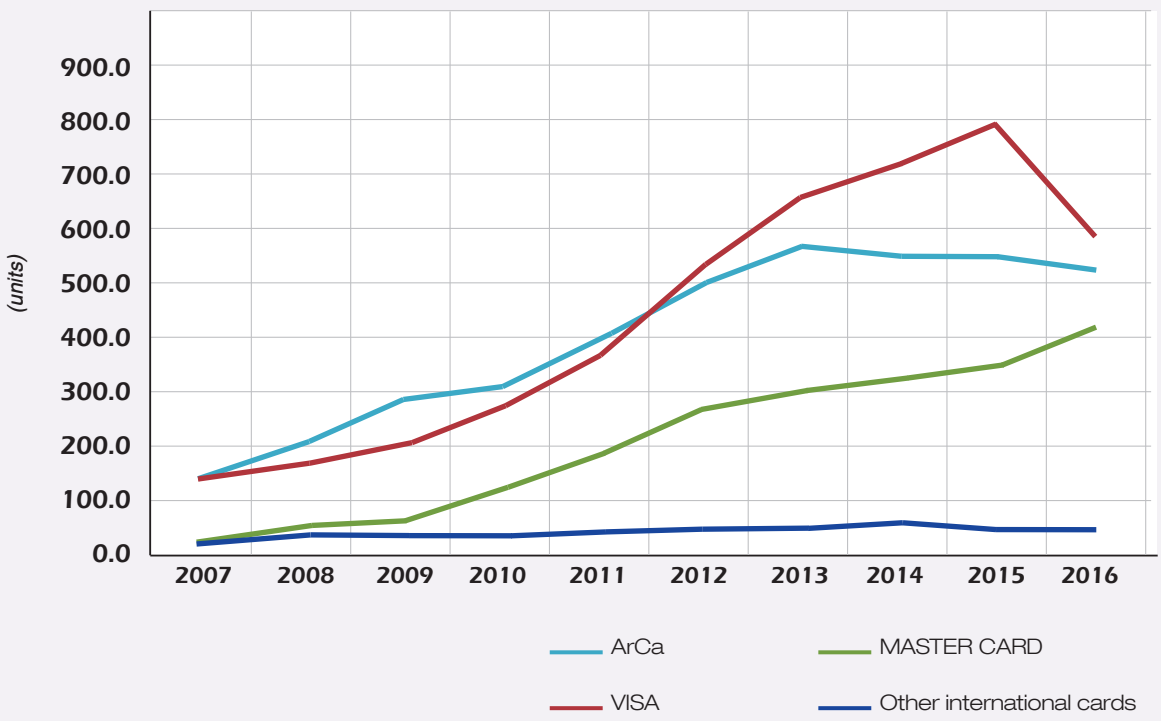
In 2016, highlighting the role of money transfers in the Armenian financial market, the Bank spent further efforts on the design and implementation of ARUS ("Armenia Remittances Unified System"). Specifically, a tender organized selected the organization that will develop a software solution for the system. The implementation of ARUS will enable more effective management of risks associated with foreign payment systems operating in the Republic of Armenia, which in turn will contribute to the strengthening of Armenia's financial stability.

Payment instruments

As of the end of 2016, a total of 15 commercial banks in Armenia had issued payment cards and offered their clients card-related servicing. All these banks are members to ArCa, a unified cards payment platform.

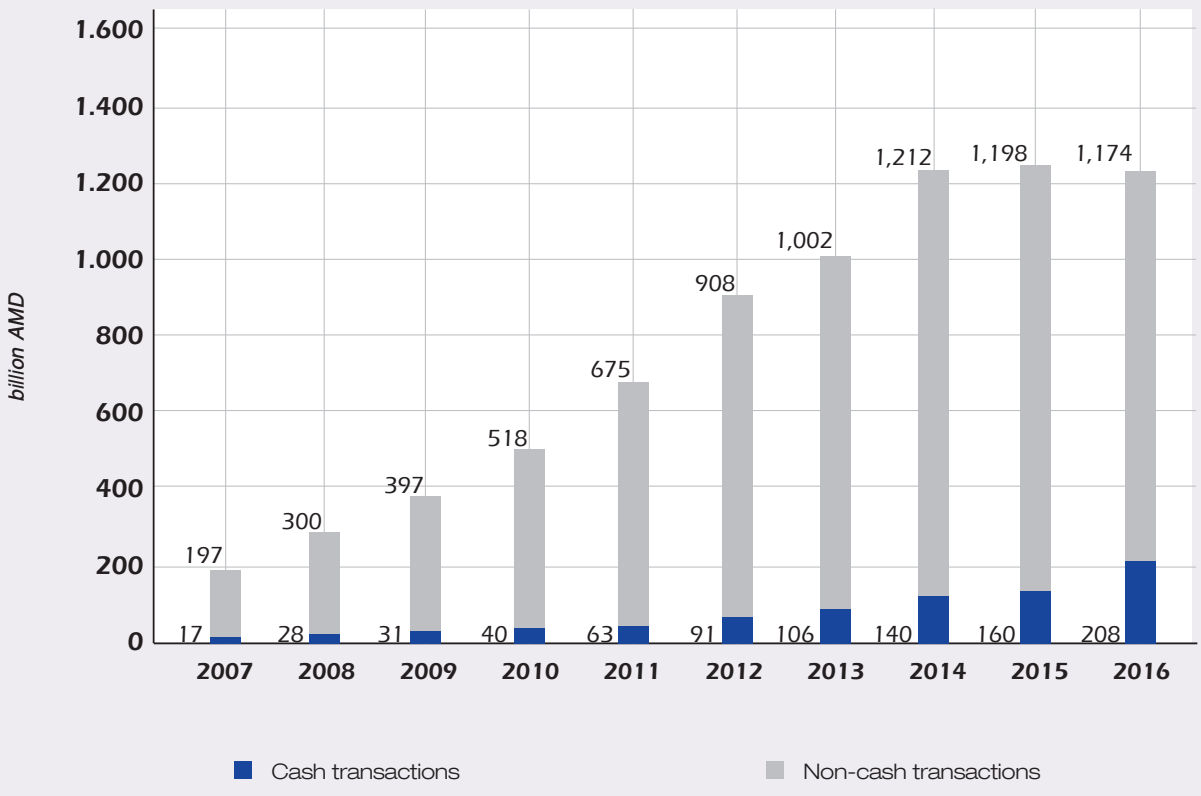
There were 1.5 million cards in circulation in total *(see Figure 9)*.

Figure 9: The number of payment cards in circulation, 2007-2016



In 2016 operations with payments cards in the Republic of Armenia were an estimated AMD 1 trillion 381.8 billion. The value of non-cash payments by cards has increased by 29.6% and amounted to AMD 208.1 billion, of which the value of Internet transactions amounted to AMD 84.6 billion (including e-commerce: AMD 23.0 billion, card-to-card transfers: AMD 59.4 billion). The share of non-cash payments by cards (transactions via the Internet included) in total operations with payment cards has grown by 3.3 percentage points compared with 2015 to 15.1% *(see Figure 10)*.

Figure 10: Operations with payment cards in Armenia



In 2016 further work was done to improve the regulatory framework for payment instruments and payment and settlement services. Specifically, there has been revision of requirements to the content of the settlement documents used in the execution of payment transactions (including transactions, using cards and e-money). When making payment, transfer, cash depositing or cash withdrawal transactions, the customers of banks and payment organizations will now benefit of getting such a document (receipt) which is complete, clear and contains all requisite information that verifies the transaction.

International cooperation

International cooperation is important in the context of maintaining a developed and reliable payment and settlement system in the Republic of Armenia, and this is why the Bank joined, in 2016, the Agreement on setting up a working group to coordinate the development of national payment systems, signed between the central banks of member states of the Eurasian Economic Union. The working group's goal is to provide coordinated approaches to the development of international standards for national payment systems.

SECURITIES MARKET

In the period under review the Bank has been active in developing new financial instruments. The reforms implemented in cooperation with the European Bank for Reconstruction and Development will promote the development of derivative financial instruments to mitigate currency and other risks. On October 27, 2016, the National Assembly of the Republic of Armenia passed draft laws which are aimed at reforming the derivatives market. Furthermore, the developing of repo instruments and other activities related to the money market are underway and will provide a good ground for effective implementation of derivative financial instruments.

The list of measures includes putting the securitization mechanism into operation and issuing asset-backed and mortgage-backed securities. These activities are important in the context of business development and investment promotion in Armenia.

04 OTHER OBJECTIVES OF THE BANK

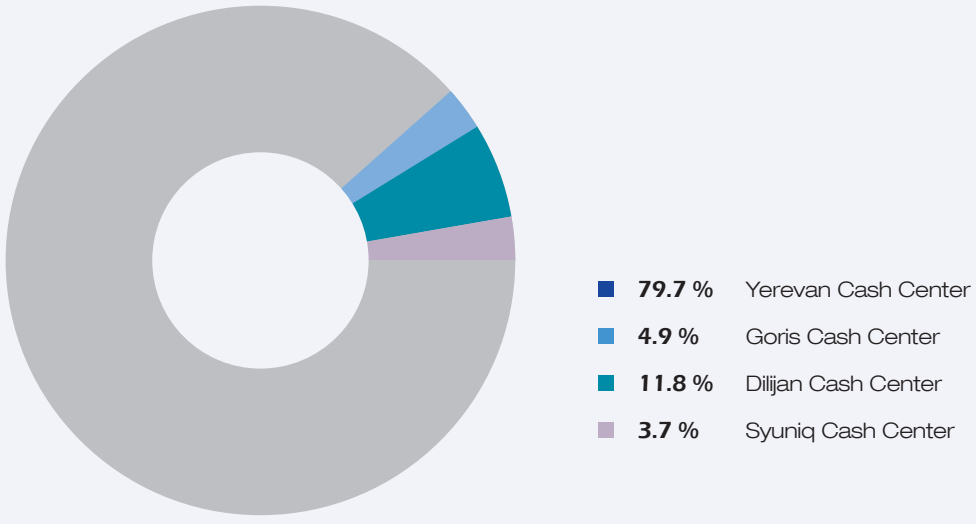
ISSUING CURRENCY OF THE REPUBLIC OF ARMENIA AND ORGANIZING AND REGULATING THE CURRENCY CIRCULATION

Activities of the Bank in the field of regulation of the national currency were steered to satisfy the demand for cash in the economy by volume, structure, quality and timetable. The Bank is mandated to organize and regulate the currency circulation by adhering to the principles of reliability, convenience, efficiency and continuity.

The Bank provides cash servicing to its customers in regions of Armenia and Republic of Artsakh through Yerevan-based cash center as well as regional cash centers(RCS) of Dilijan, Goris and Syuniq.

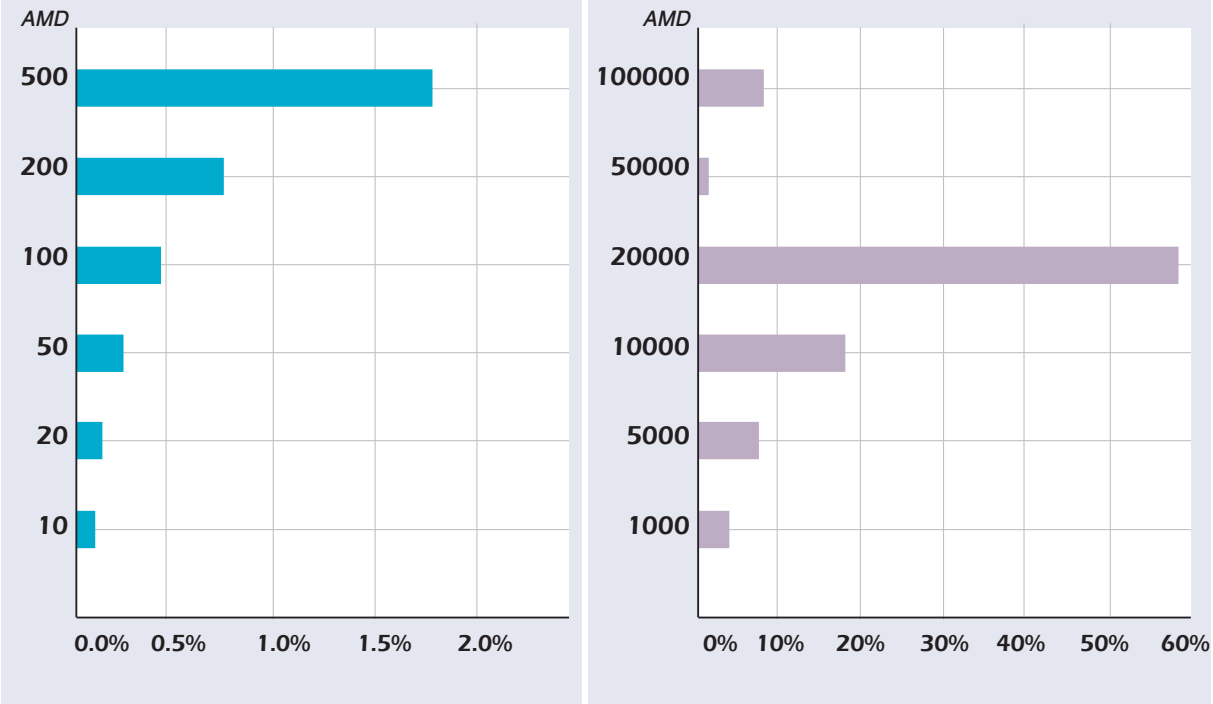
In 2016, relative to the previous year, the value of cash circulation of the Bank has grown by 1.1%. Regional cash centers secured as much as 20.3% of total cash circulation of the Bank. Like in previous years, RCS mostly reported transactions for cash withdrawal, constituting 79.2% of their total turnover *(see Figure 11)*.

Figure 11: Cash turnover of the Bank in 2016



In the year under review the value of currency outside the Bank has increased by 10.1%. There were no essential changes in the type structure of the notes. The notes with nominal value 20000 and 100000 drams reported most increases in the circulation.

Figure 12: Type structure of currency outside the Bank as of 31.12.2016



In the framework of strategic aspect of increasing fight against money counterfeiting, further work was done to developing a new information system "Banknotes having passed expertise in the Central Bank". The system will allow full registration of data, obtain most complete and accurate information on the notes having passed expertise and perform analytical work. In the framework of fight against counterfeiting, the Bank continued its cooperation with law enforcement authorities. As part of cooperation, analytical work done reflected on the methods and approaches to making and grouping of the counterfeit banknotes detected by the Bank. The Bank now has a state-of-the-art facilities for banknote expertise

The history of money circulation in Armenia and of the national currencies has been broadly featured and a lot of materials on numismatics prepared and published.

A standing numismatic exhibition dedicated to the history of money circulation in Armenia has been organized at the Dilijan training and research center.

To proliferate national, historical, cultural and spiritual values among the public and to satisfy growing demand of collectors for numismatic values, the Bank has issued commemorative coins made of precious metals. These are dedicated to renowned individuals and mark various anniversaries celebrated in 2016.

The Bank is a regular participant in international competitions. At the "Coin Constellation 2016", an international contest held in Russia, the Bank's commemorative coin "The Centenary of the Armenian Genocide" earned the first prize in the nomination "Coin of the Year".

ORGANIZING AND REGULATING THE FRAMEWORK TO COMBAT MONEY LAUNDERING AND TERRORISM FINANCING

Activities of the Bank's Financial Monitoring Center (FMC) in combatting money laundering and terrorism financing in 2016 included implementing a regulatory framework and policies in compliance with international standards, reviewing impulses that contain possible ML/TF suspicions, and further cooperation at international and domestic levels. Knowing more in the field of combatting ML/TF remains an important aspect for reporting entities and the FMC staff and other bodies engaged in the fight against ML/TF.

In December 2016 an interim assessment report of the Republic of Armenia was presented and approved at the plenary session of MONEYVAL Committee, as part of the 5th round of assessment of national framework for AML/CFT. Specifically, the report referred to the providing for a financial action against financing proliferation of weapons of mass destruction in the Republic of Armenia Law on Combatting Money Laundering and Terrorism Financing. The MONEYVAL Committee applauded the steps taken towards the implementation of legislative changes to eliminate the problems identified.

The compliance report of the Republic of Armenia was discussed and approved at the 8th plenary session of the Conference of the parties to the 2005 CETs No. 198 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (the Warsaw Convention), held in October 2016.

The Interagency Committee on Combating Money Laundering, Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction, established under the President of Armenia March 21, 2002 decree No. PD-1075, has approved two papers - the Strategy on Combatting Money Laundering, Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction for 2016-2018, with measures in implementation of the principles and objectives laid down therein, and the Action Plan for Tackling Problems Addressed in the Framework of the 5th Round of Assessment Report on Combating ML/TF in the Republic of Armenia. The plan includes 11 recommendations to eliminate these problems under technical compliance with FATF Recommendations and assessing the effectiveness of the mechanisms on combatting ML/TF, measures to be implemented

by governmental departments and agencies, an implementation timetable and the list of agencies and entities responsible for implementation.

Legislative improvement

In 2016 the FMC developed and publicized a package of draft laws providing for amendment (change, supplement) to the Republic of Armenia Law on Combatting Money Laundering and Terrorism Financing as well as other relevant laws, as part of Armenia's commitment under the AML/CFT framework for membership to the United Nations and the Council of Europe's MONEYVAL Committee as well as in implementation of the recommendations issued by the 5th Round of Assessment Report. The package calls for taking action to freeze the assets of persons and entities linked to the distribution of weapons of mass destruction, limit any cash payment in excess of an established threshold for real estate-related transactions, align the definition of terrorism financing and WMD distribution with existing international standards, and so on.

On December 16, 2016 the National Assembly endorsed in a second reading the Republic of Armenia Law on making a supplement to the Criminal Code of the Republic of Armenia (AL-216-N), which criminalizes the organizing, managing, creating of a financial pyramid that is a predicate offense, and the Republic of Armenia Law on making a supplement to the Criminal Procedure Code of the Republic of Armenia (AL-217-N) that regularizes the investigative jurisdiction of that crime. The drafting of the laws were upon the FMC initiative.

The Guide on High Risk and Suspiciousness Criteria to Money Laundering and Terrorism Financing has been approved under the October 11, 2016 Chairman Decree No. 1/711-A.

The September 13, 2016 Board Resolution No. 143-N has repealed the January 27, 2009 Board Resolution No. 23-N, 2009 decision and approved the content, template, procedure and timetable of statistical reports provided to the Bank by the General Prosecutor's Office, Ministry of Justice, Ministry of Finance, Investigation Committee, Special Investigation Service, the Police, National Security Service, State Revenue Service, Enforcement Service of Judicial Acts, Judicial Department.

More changes under other resolutions of the Board of the Bank were adopted to clarify the cases of declaring the true beneficial owner of a legal entity, as well as the standard form of the statement. In particular, based on the requirements set forth in the

Republic of Armenia Law on Combatting Money Laundering and Terrorism Financing and the FATF recommendations, the obligation to provide information regarding the true beneficiary has been vested with all legal entities irrespective of their legal and organizational structure.

Analyses and findings

In 2016 the FMC continued conducting analytics of various signals that could potentially contain ML/TF elements. Based on the results of analyses and respective ML/TF assumptions, the FMC made referrals to both domestic law enforcement authorities and foreign financial intelligence units. Of the schemes which were common in the analytics, the following are worth mentioning:

- various fraud schemes, including:
  - uses of false cards, illegal uses of data of stolen cards issued by foreign banks,
  - legalization of illicit funds obtained through various schemes of mass marketing,
  - transactions containing elements typical of a financial pyramid,
- attempts of provision of unlicensed financial intermediation services,
- financial transactions purporting tax evasion, unlawful or underground activities, concealment of the volumes of economic activity,
- other schemes described by the typologies published by the Bank.

Further measures were taken by the FMC to prevent ML/TF risks, including attempts to prevent the movement of funds of unknown origin from one country to another through the use of the banking system of Armenia.

The table below provides an account of referrals of assumption of money laundering to the law enforcement authorities, information requested by the FMC from the law enforcement authorities, information requested by the law enforcement authorities from the FMC, as well as general statistics on criminal cases on money laundering:

	2012	2013	2014	2015	2016	Total
FMC referrals to law enforcement authorities	11	25	28	31	34	129
Information FMC requested from law enforcement authorities	11	17	17	9	11	65
Information law enforcement authorities requested from FMC	61	36	66	36	36	235
Criminal cases instigated	9	10	9	4	5	37
Sentences rendered	2	2	1	0	0	5

The FMC continued collaborating with foreign financial intelligence units. In 2016 the FMC received 26 requests from and made 20 requests to FIUs.

FMC training and consultancy

In the period under review the FMC has organized and conducted a series of seminars and workshops for around 200 participants as reporting entities representing the financial and non-financial sectors, entities which control them as well as specialists from the State Register of Legal Entities and State Committee of Real Estate Cadastre. The results of the 5th round of assessment report on combating ML/TF in the Republic of Armenia, including the progress achieved in performing duties by reporting entities and current issues addressed by the ML/TF legislation, developments related to the legislation on combating the ML/TF and financing proliferation of WMD, preventive measures and new suspiciousness signals and criteria were communicated during the seminars.

PROTECTION OF CONSUMER RIGHTS AND INTERESTS IN THE FINANCIAL SYSTEM

Protection of consumer rights in the financial market

The protection of consumer rights and lawful interests in the financial market has been achieved through the fair conduct of organizations providing financial services, provision of appropriate institutional environment and financial education.

Regulatory framework development

In 2016, for a better handling of customer complaints, new requirements were established with regard to the Credit Bureau. From now on, the Credit Bureau will use more explicit, organized and documented procedures to receive, investigate and respond to complaints submitted by consumers.

The explanatory leaflets provided to consumers when entering into contracts and filling in complaints have been improved and simplified in order to make the information on the protection of their rights more attainable.

Starting 2016, financial institutions are obliged to properly inform consumers of:

- the fact of closing loan and deposit accounts, the procedures related thereto and the reason for rejecting the termination,
- the fact of informing the Credit Bureau about the cases of non-performance or improper performance of obligations by the consumer.

Oversight of business conduct

In 2016 the Consumer Protection and Financial Education Center continued on-site and off-site surveillance of financial organizations.

The CPFEC conducted a market research also through mystery shopping in order to evaluate how banks make loans and how they provide consumers with information on the loans.

As part of off-site examinations, the CPFEC monitored, on a monthly basis, radio advertising by financial organizations in addition to their TV commercials. The information about financial organizations and services that they provide published on the websites and the Financial Assistant system has been monitored on a quarterly basis.

In 2016 the CPFEC responded to consumer complaints received in writing and via a hotline service. During the year a total of 2160 calls were received by a hotline service. This means more than 1000 calls or a 98% increase of calls compared to the previous year. In 2016 the CPFEC received 270 complaints, which represents a 26.7% increase (57 more complaints) relative to the previous year.

Calls received via a hotline service

	Complaints	Calls for educational matters	Other calls	Request of information	Total
Banks	174	62	5	391	**632**
Credit organizations	17	2	2	56	**77**
Insurance companies	9	3	1	29	**42**
Other	181	182	25	1021	**1409**
Total	**381**	**249**	**33**	**1497**	**2160**

Consumer complaints in writing submitted to the Bank

	Complaints	Calls for educational matters	Other calls	Request of information	Total
Banks	89	62	4	3	**158**
Credit organizations	14	14	0	0	**28**
Insurance companies	13	2	0	1	**16**
Other	1	0	0	0	**1**
Total	20	35	3	9	**67**
	137	**113**	**7**	**13**	**270**

Increasing the level of financial literacy of consumers in Armenia

In 2016 The Committee[4] of National Strategy for Financial Education[5] led by Central Bank held 3 meetings at which the NSFE activities were discussed and summed up and decisions were made with regard to the activities, current and planned.

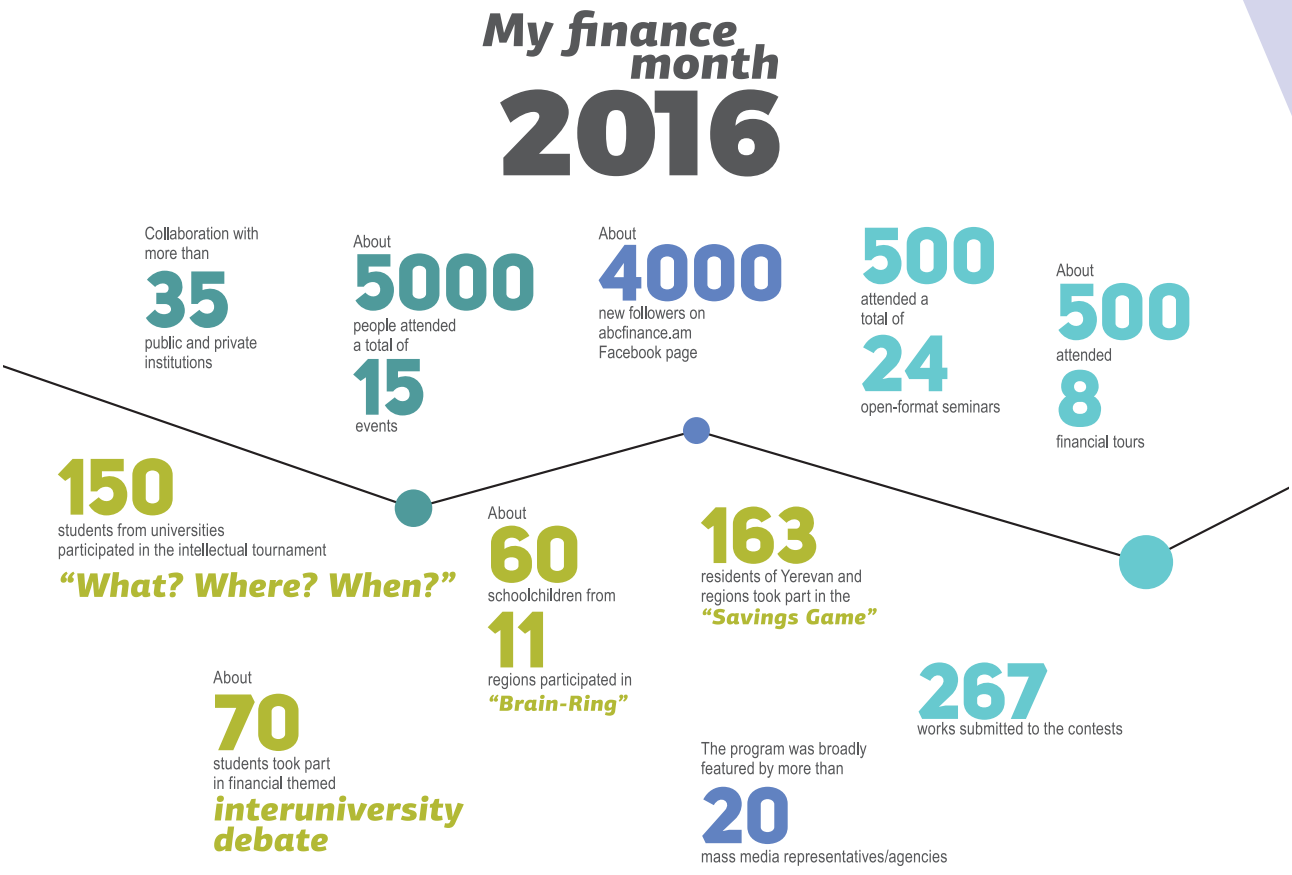
Upon previous agreement with the Republic of Armenia Ministry of Education and Science, financial education at schools will be implemented by integrating the financial literacy component to the school curriculum of subjects taught in 1-12 grades. To this end, working subgroups set up under the NSFE in 2016 are tasked to develop educational standards and programs for the following 4 subjects: "Me and the environment", "Mathematics", "Algebra", "Social studies".

A special program for financial education in regions of Armenia carried on in 2016 in order to further implement the financial education project, including by way of a 2-day workshop to give the rural population more knowledge and skills in personal finance management. During the year a total of 9 seminar instructors from 6 regions passed training and received qualification certificates, which allowed them to conduct seminars in 53 rural communities.

The third "My finance month", a financial education initiative, took place in the framework of the national strategy for financial education in Armenia between April 1-30, 2016. Highlighting the importance of effective management of personal finances is the main goal of the program which is carried out in collaboration with more than 35 public and private institutions.

4 The National Financial Education Strategy Development and Implementation Committeeis an advisory inter-ministerial body whose members are collaborating with a view to making the development and implementation of NSFE.More than 18 organizations in public and private sectors are members to the Committee. The Bank is in charge of coordinating the activities of the NSFE.

5 The national strategy of financial education in the Republic of Armenia and the NSFE Action Plan for 2014-2019 was approved by the CBA Board and the National Financial Education Strategy Development and Implementation Committee in 2012. These documents were also approved under the Government of Armenia Resolution No. 47, pursuant the minutes of the meeting on November 13, 2014.



In 2016, about 5,000 people attended a total of 15 events.

During the year, a series of articles (44) posted on social networks broadly featured financial topics, such as budget management, payment and settlement system, loans, deposits, insurance, securities and so on. The program is aimed at helping the public get a clear understanding of finance and, particularly, the financial services.

The Citizen Project, another financial education initiative, was carried out in 2016. The main goal is to give students and teachers tools to identify and study the financial problems in their communities and offer alternative solutions thereto. In 2016 the program was implemented at 33 schools in Gyumri and nearby villages of Shirak region. A total of 35 social study teachers were trained to hold workshops involving more than 600 middle and high school students. Student groups have spotted 6 financial problems and gave alternatives to their solution.

In 2016 the 5th World Savings Day event was held in cooperation with the German Savings Banks Association.

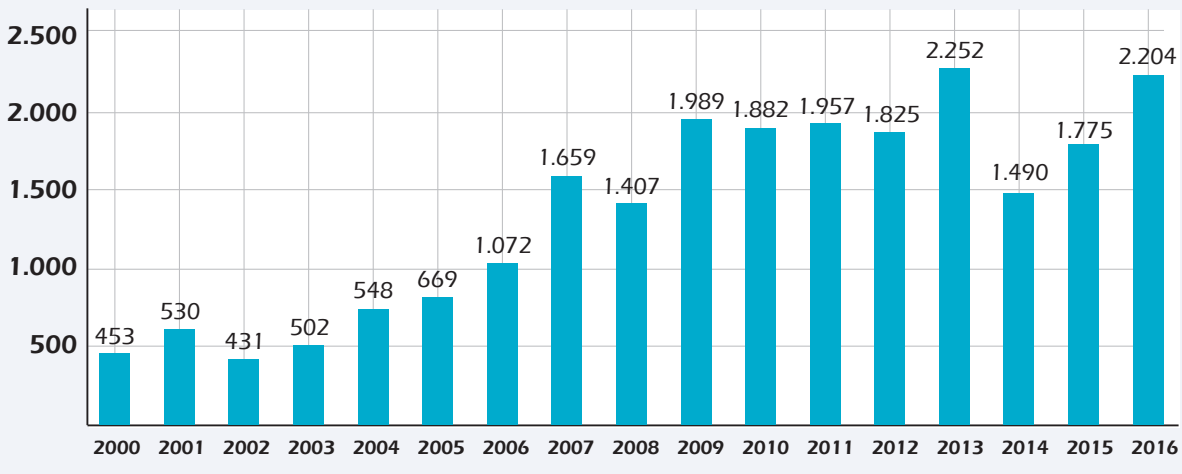
Work was done to provide coverage to the funded pension system.

Financial education volunteer program has been introduced. The volunteer team consists of 16-25 aged 300 young and active members on social media remains an important platform for increasing the attention and interest in financial education, and the website abcfinance.am[6] (via same-name pages of Facebook, YouTube, Twitter) was further used to that effect. The development of **"Finance for everyone"** website continued.

INTERNATIONAL RESERVES MANAGEMENT

In 2016 gross international reserves of the Republic of Armenia[7] grew by about USD 428.8 million to nearly USD 2,204.1 million at the end of the year *(see Figure 13)*.

Figure 13: International reserves of the Republic of Armenia (million US dollar)



6 https://www.abcfinance.am

7 Gross international reserves in free convertible currencies.

The growth of reserves during the year was mainly due to around USD 503 million-worth inflow of funds, roughly USD 151 million-worth growth of balance on foreign currency correspondent accounts of commercial banks and about USD 29 million-worth purchase of foreign currency at the domestic market. At the same time, repayment of the public debt principals and interests reached an amount equivalent to around USD 230 million.

In 2016 Armenia's international reserves were further in line with all requirements to international reserves applied in world practice. This is true especially in terms of the Armenian economy's ability to absorb possible external shocks. In 2016 international reserves of the Republic of Armenia provided for nearly six months' import coverage and more than 7 years' coverage of servicing short-term (up to a year) liabilities.

International reserves of the Republic of Armenia were managed in light of a number of economic and political developments in the world throughout the year.

The victory of the Republican Party in the USA is worth mentioning as they are going to implement a large-scale fiscal stimulus package to promote economic activity. The implementation of key provisions of the program is to accelerate the US economic growth, which in turn will have a positive impact on the global economy.

In the context of relatively rapid GDP growth rate and house price increases, significant decline in unemployment rate and accelerating inflation in the world's leading economy, the US Federal Reserve System has tightened the monetary policy by raising the short-term rate by 25 basis points. Overall, in 2015-2016 the US Fed has raised its target rate by 50 basis points. However, the US Central Bank's behavior is wary, and further moderate increase in short-term interest rates is expected. In 2016 the US dollar 3-month Libor rate rose by approximately 0.4 percentage point to up to 1% and the yield of 2-year US treasury bills grew by around 0.15 percentage point.

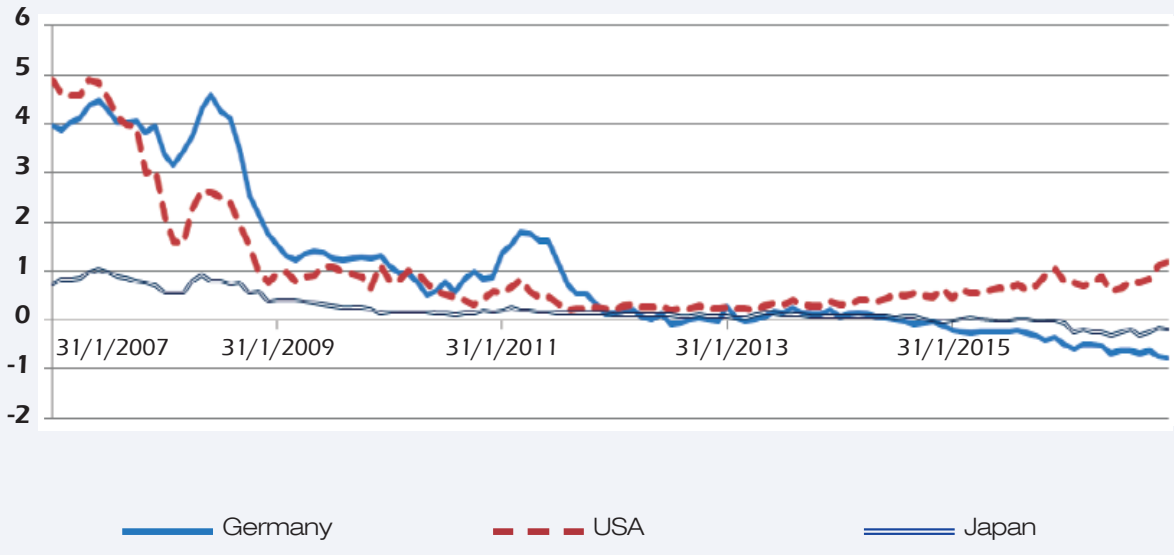
As for the United Kingdom, the Bank of England, which was to adopt a contractionary monetary policy according to predictions made in early 2016, cut the key policy rate by 0.25 percentage point. The decision came after most UK citizens voted for leaving the EU as a result of the referendum in the UK.

In 2016 the European Central Bank further carried out an expansionary monetary policy under which it took a number of new measures. Specifically, the ECB reduced the standing deposit facility rate, the refinancing rate and overnight rate. The assets purchases program expanded by EUR 20 billion to reach EUR 80 billion a month.

The monetary policy carried out by the Central Bank of Japan remained aggressively stimulating and the level of interest rates unprecedentedly low.

In the face of the aforementioned developments, government bond yields remained historically low in developing countries in the world and hit extraordinarily negative levels in Germany and Japan *(see Figure 14)*.

Figure 14: The US, German and Japanese 2-year treasury-bill yields, %



In the time of uncertainties in the international financial market, the Bank continued managing the international reserves, following the adopted least-risk involvement reserve management strategy focusing on safety, liquidity and effectiveness of the reserves.

INSTITUTIONAL DEVELOPMENT

INSTITUTIONAL DEVELOPMENT OF THE BANK

Governance of the Bank

The Board constitutes top management of the Central Bank, according to the Republic of Armenia Law on the Central Bank[8]. The Board consists of Chairman, two Deputy Chairmen of the Central Bank, and five Members. Chairman and Deputy Chairmen are included in the Board *ex officio*.

Chairman of the Central Bank is the highest official of the Bank. Chairman of the Central Bank is appointed by the Armenian National Assembly upon recommendation of President of the Republic of Armenia, for a 6-year term. Chairman is responsible for fulfillment of the Central Bank objectives. Chairman coordinates the activities of the Central Bank; represents the Central Bank in the Republic of Armenia, other states and international organizations; exercises authority not reserved to the competence of the Board. Where Chairman is absent or otherwise unable to act, such powers are to be vested with one of the Deputies, and where Deputies are absent or otherwise unable to act, such powers are to be vested with the eldest Board Member of the Central Bank. Deputy Chairmen of the Central Bank are appointed by President of the Republic of Armenia, for a 6-year term. Chairman and Deputy Chairmen as well as Board Members cannot serve as a member of managing body of any party, be involved in activities other than scientific research, pedagogical and creative activities.

Board Members of the Central Bank are appointed by President of the Republic of Armenia for a 5-year term. Board Members cannot hold any other position in the Bank.

8 See details in the Republic of Armenia Law on the Central Bank.

Board of the Central Bank

Regular meetings of the Board are held every two weeks, on Friday, pursuant to the schedule set by the Board at the opening meeting of the year. Extra meeting of the Board can be held at the request of Chairman, at least one Deputy Chairman or at least three Board Members of the Central Bank. The Board approves the Central Bank charter, monetary policy programs of the Republic of Armenia, caps and interest rates on outright operations, loans provided and deposits attracted by the Central Bank, terms and procedure for reserve requirement with the Central Bank; enacts normative regulations of the Central Bank; issues, revokes or annuls banking licenses and other activity licenses; determines the procedure of licensing to banks and other entities; approves prudential standards for banking and calculation thereof; and exercises other authorities under law.

In 2016 the Board held 74 meetings, of which 9 in Dilijan Research and Training Center, and adopted **52 normative resolutions** and **198 individual** resolutions. In 2016 the Board issued two official clarifications about some aspects in non-public contractual funds, the applying of Article 21^2 (3) 2 of the Republic of Armenia Law on the Banks and Banking, the applying of Article 251 (3) of the Republic of Armenia Civil Code with regard to the sale of collateral through public auction, the values subject to blocking by the bank, an aspect of the pledgee's right to preference where satisfaction from sale of the item of pledge of movable property was concerned, and the applying of Article 149 (1) and (3) of the Republic of Armenia Law on Securities Market.

Executive Board of the Central Bank

The Executive Board is an advisory body adjunct to Chairman of the Central Bank, and conducts its proceedings through meetings. Normally, the Executive Board meets on a biweekly basis, on Tuesday following the day on which the Board's consecutive meeting is held.

Chairman of the Central Bank takes the chair of the Executive Board's meetings; in the absence of Chairman, one of Deputy Chairmen does so.

In 2016 the Executive Board held 12 meetings.

Commissions and Committees of the Bank

Commissions, committees and other consultative bodies are key pillars of the Bank governance, and their structure and competence are defined based on the scope of issues and area of activity. The commissions and committees of the Bank hold meetings and draw up minutes which are approved by Chairman of the Bank. Where appropriate, Chairman makes decisions and issues orders based on such minutes. Below is a brief account of the Bank's commissions, committees as well as information about their activities.

As well as standing commissions and committees, ad-hoc committees can be set up by the directive of Chairman of the Bank and resolution of the Board when certain tasks and objectives need to be addressed.

Monetary Policy Committee

The Monetary Policy Committee is responsible for reviewing and evaluating indicators related to the previous week's monetary policy course, the situation in the banking sector and financial market, the Bank's operations as well as relations between monetary and the state budget.

MPC is set to review and evaluate the Central Bank Statistics Department's and the Republic of Armenia National Statistics Service's observations concerning inflation estimations of the previous 10 days.

MPC's meetings are held each Friday at the Bank. In 2015 MPC had 50 meetings.

Financial Stability Committee

The Financial Stability Committee is anadvisory body adjunct to Chairman of the Bank. It is set to review, evaluate and analyze stability of the financial system, prepare for relevant measures and propose terms and conditions for taking up such measures. FSC makes thorough situational analysis when needed.

During the meetings FSC makes a review of how risks progress in the global economy, macro-environment and financial markets in Armenia as well as domestic financial institutions and infrastructure in the previous quarter and whether they affected the financial stability. FSC also addresses the dynamic of the banking system

stability index and its components, the results of stress-tests that evaluate the financial stability, and etc.

FSC meets once every quarter, in the second half of the month following each quarter. Extra meetings of the Committee are held as and when chairman of the committee decides so. In 2016 FSC held meetings according to the schedule.

Investment Committee

The Investment Committee is an authorized decision-making body within the Central Bank structure. The Committee supervises and coordinates the investment activities, evaluates the results of financial analyses in compliance with decisions made with regard to the management of international reserves of the Republic of Armenia as well as investment guidelines approved by the Board of the Bank.

The Committee is set to address issues of strategic and tactical management of international reserves as well as to perform monitoring of ongoing investment activities.

Normally, the Committee's meetings are held once every four weeks, on Monday. In 2016 IC met 9 times and made 5 decisions.

Licensing and Supervision Committee

The Licensing and Supervision Committee is set to address aspects such as granting preliminary consent to creation of banks and branch offices of foreign banks; registration and/or licensing of banks and branch offices of foreign banks; registration of branch offices, representations of banks, representations of foreign banks; registration of operational rules of regulated market operator and Central Depositary; licensing of other participants.

LSC considers whether or not to impose sanctions against the financial institutions licensed and supervised by the Bank after violation has been detected, or whether or not to qualify price manipulation as such in the event it has found facts of such manipulation during foreign exchange trades and auctions. LSC has its proceedings through meetings which are convened as and when appropriate but not less than once a week.

In 2016 LSC held 65 meetings.

Young Specialists Evaluation Committee

The Young Specialists Evaluation Committee meets to examine and evaluate professional abilities and knowledge of young specialists who work at the Bank. The committee takes decisions of a consultative nature which then serve a basis for unit heads to prepare recommendation on the upcoming status of young specialists. YSEC decisions are advisory only and can be used by heads of structural units for recommendation to chairman of the Bank concerning the future status of the specialist.

In 2016 YSEC met 3 times and assessed a total of 23 young specialists.

Job Evaluation Committee

The Job Evaluation Committee is mandated to evaluate and categorize new jobs or changed job positions at the Central Bank. It discusses issues on evaluation and categorization of jobs for new or changed positions and makes recommendations to chairman of the Bank for consideration.

The Committee addresses the issues that are disputable with regard to performance of individual work programs of employees of the Bank.

JEC meetings are held as and when needed, by October 15 of the year. In 2016 the Committee held 3 meetings.

Staff Assessment Committee

The Staff Assessment Committee is tasked to measure professional and practical abilities and knowledge of the staff of the Bank or persons who wish to apply for a job (applicants) at the Bank.

Professional skills and knowledge of the staff of the Bank and applicants can be assessed through both interview and tests in writing. Chairman of the Bank who heads this committee will take a decision based on the conclusion issued by the committee about whether or not the employee or applicant is fit and proper for the proposed job position.

In 2016 SAC held 18 meetings.

Audit Committee

The Audit Committee of the Bank is a specific structural unit within the Bank. Responsibilities of AC include issues and tasks pertinent to financial accounts of the Bank, aspects of governance, risk management, internal control, and external and internal audit. AC consists of three members, including the chairman of the Committee. Members of the Committee are board members of the Bank. Chairman and deputy chairmen of the Bank cannot serve as members of AC.

The issues addressed during the year covered audit engagement, external audit, internal control and risk management system as well as day-to-day activities, methodology and area-specific issues of Audit Group.

In 2016 AC held 5 meetings.

In addition to these committees, other bodies playing an important role in corporate governance of the Bank are the Budget Committee, Information Security Committee, Information Technologies Development Committee, Tender Committee, Research and Analysis Assessment Team and Editorial Board which is responsible for upgrading the Bank's Internet homepage, as well as the development and implementation of information policy of the Bank.

Accountability of the Bank

In fulfilling its objectives, the Bank is independent from state authorities of the Republic of Armenia. The Bank maintains its accountability pursuant to the terms and procedure determined by the Republic of Armenia Law, the Central Bank strategy and procedures and timelines specified by internal rules and policies.

The Bank presents *the Monetary Policy Program* and *Status Report on Implementation of Monetary Policy (Inflation Report)* as well as *Expenditures Estimate* and *Capital Investment Program*, with performance sheet papers, to the National Assembly of the Republic of Armenia. Furthermore, the Bank publishes the "Annual Report of the Central Bank" for public disclosure. The annual report incorporates the Bank's annual financial accounts the compliance of which to international standards is verified every year by internationally recognized audit firms.

In addition to the aforementioned papers, the Bank publishes the following periodicals: *Financial System of the Republic of Armenia: Development*, *Regulation and Supervision*, *Financial Stability Report*, *Central Bank Bulletin*, *Central Bank Statistical Bulletin*, *Commemorative Coins of the Republic of Armenia*.

The Bank maintains accountability also through its official website (www.cba.am) which contains the Central Bank Development Strategy, regular issues of periodicals, the Board minutes and press releases on the refinancing rate, and other information on the Bank's operations and activity and the financial system as a whole.

Management systems and organizational development

In 2016 the Bank spent further efforts to increase and improve the effectiveness of the security system. Peculiarity of the geopolitical location of Armenia prompts to paying due attention to emergency planning for continuity of operations and functions of the Bank and the entire financial system, recovery of relevant infrastructures and increasing management and staff readiness. The Bank had the following activities in this field:

- Continuity of business processes:
  - back-up areas were reconstructed and refurbished with all necessary facilities,
  - high-reliability back-up facilities were created for the information systems,
  - key personnel were provided with necessary back-up work stations, individual protection equipment.
- Civil defense system development:
  - a first-aid group was created and the staff of the group attended specially tailored training courses,
  - the personnel were provided with shelter, individual protection equipment,
  - training evacuations were organized.
- Joint activity coordination:
  - joint exercises were organized with the participation of the Bank and Financial Institutionsto ensure the restoration of interconnected functions in emergency situations
  - the Bank took part in other respective exercises organized at the national level and earned high praises.

COOPERATION WITH INTERNATIONAL ORGANIZATIONS

In 2016 the Bank sustained its multilateral and bilateral cooperation with international organizations and institutions elsewhere in the world.

During the year, the Bank received delegations of the International Monetary Fund, the World Bank, other international financial organizations and partner banks. The following activities are worth mentioning:

- the Memorandum of Understanding under the EBRD Early Transition Country Local Currency Lending Programme was signed between the Bank and Ministry of Finance of Armenia and the European Bank for Reconstruction and Development (March 15th, venue: Yerevan),
- the lending program "Development of sustainable housing market, phase IV " for the amount of EUR 20 million was signed between the Bank and the German KfW Development Bank (March 31st, venue: Yerevan),
- the lending program "Financing of SMEs" for the amount of EUR 50 million was signed between the Bank and the European Investment Bank (November 18th, venue: Yerevan).

In 2016 the Bank organized a series of business meetings, forums, sessions, roundtables and conferences which were held in Yerevan, as well as other regional educational complexes of the Bank.

During the year nearly 250 employees of the Bank attended a variety of events, including annual meetings, forums, international conferences on banking and finance, symposiums, roundtable meetings, consultations, exhibitions and workshops, in the framework of both technical assistance and bilateral and multilateral cooperation.

Highlighting the importance of stronger consumer protection and the need for further financial education, the Bank enhanced its cooperation with Organization of Economic Co-operation and Development, International Network on Financial Education, Alliance for Financial Inclusion, Eurasian Economic Community, and Child & Youth Finance International.

Personnel management

In 2016 the Bank remained committed to a personnel policy that supports professional development, provides opportunities for lifelong education and attracts people who are performance-minded, true professionals and skilled workers. At the end of the year the Bank had 788 employees, working on open-ended and fixed-term contracts, of which 445 were women and 343 men. The average age of employees is 39. A total of 32 employees left the Bank during the year in comparison with the previous year's figure of 50.

There were 19 vacancies in the Bank which were filled by competition announced within and out of the Bank. During the year 52 employees earned promotions (6 of who for a managerial position) for taking up a function of increased complexity.

The Bank further maintained a policy that encouraged recruiting young specialists (with no professional experience) while providing them with an opportunity to grow professionally and fill up vacancies in the future. The regular two-month program "The Central Bank: an introductory course" implemented in 2016 helped 9 young specialists sign fixed-term employment contracts with the Bank.

In 2016 a total of 135 students from Armenia'suniversities took their research internship at the Bank.

During the year 50 applicants participated in the Isahak Isahakyan Stipend Eligibility Contest announced by the Bank. The best of them - 3 from the Faculty of Economics of Yerevan State University, 3 from Armenian State University of Economics, 1 from Artsakh State University and 1 from the American University of Armenia - were awarded the Isahak Isahakyan Stipend.

Number of employees

788*

343 men

445 women

* Average number of employees: 791, see details in the Financial Statement

Average employee age

39

Employees who left **32**

Employees who joined **28**

19 External/internal competition

9 BTC Young specialists

52 Employees who earned promotion

6 took a managerial position

Research internship **135**

Employees who lectured **45**

Students awarded the Isahak Isahakyan Stipend **6**

Trainings

15 Number of seminars arranged by the use of in-house resources

Rotations

14 Number of employee rotations in 2016

Events

250 Events organized with partner institutions as part of bilateral and multilateral cooperation

128 Events and programs organized by the Bank and partner institutions jointly in Armenia in 2016

Certification

44 Number of international certificates

24 Certificates to be awarded

8 ACCA

5 CFA

Staff training and professional qualification

Improving professional integrity remains a key aspect of continued staff training and development policy of the Bank.

In 2016 employees of the Bank passed training at banks, other financial institutions and training centers abroad and in Armenia, including at Dilijan Training and Research Center in cooperation with internationally renowned university professors.

An expert from the Bank of Netherlands offered the supervisors of the Bank a phased training course "Bank Supervision", which has become a regular event. Another continuous phased training course "Improving Interview and Communication Skills" was organized for the supervisors of the Bank in collaboration with the Bank of Netherlands and the "Gooiconsult" Group in order to develop communication skills in the field. A training course "The Experience of On-site Supervision under a Single European Supervisory Mechanism" offered by the experts of the Bank of Belgium has been a result of deepened bilateral relations.

Employees of the Bank and representatives from foreign banks continued attending the international workshops organized in collaboration with the Canada Toronto Centre and US Federal Reserve System in 2016. This remains an important aspect in the context of regional cooperation in the financial sector.

In 2016 a total of 128 events/programs were organized in the Republic of Armenia by the Bank in collaboration with partner institutions, and the representatives of the Bank, commercial banks, other government agencies, the private sector and foreign central/national banks attended these events.

Stressing the importance of transfer of knowledge and expertise accumulated over the years, the Bank has organized 15 seminars by the use of internal resources to develop important skills for professional activities.

The Bank also attaches great importance to on-line training courses. Many employees participated in training courses and used the services of webinars offered by the Financial Stability Institute and other leading international educational and financial institutions of the world.

Job rotation, another tool for professional development, was offered to 14 employees of the Bank in 2016 to make sure a reserve of managerial staff is in place and both experienced professionals and young specialists are given a chance to broaden their knowledge.

During the year employees of the Bank continued taking international certification and qualification exams in the field of finance, accounting, audit, insurance, information technologies, fraud, and personnel man-

agement. As of 2016, 44 employees had international certificates of qualification and 24 were taking exams. Eight employees of the Bank are full members of CFA and five are full members of ACCA.

Public relations

In 2016 the Bank further communicated its activity, accomplishments, financial sector reforms as well as events in the financial market to the general public.

The Bank regularly announced its actions, projects, undertakings, initiatives about monetary policy, financial supervision and financial stability to financial market participants and the public, and arranged meetings to discuss matters of interest.

During the year 8 Board decisions on repo operations (refinancing rate) were published. Brief statement on the Board decisions were released immediately after they were made while the Board Minutes were published within 10 days. A total of 4 Board Minutes were published in the periodical "Inflation Report".

The representatives of mass media were offered educational seminars on a variety of topics about the financial stability, payment and settlement system and Dilijan Training and Research Center activities. Discussion sessions were organized for the participation of heads of mass media industry and representatives of the management of the Bank.

The Bank arranged panel discussions with economists and industry experts on the following topics **"Armenia's financial system and stability", "The monetary policy", "The economic role of exchange rate", "Banking sector intermediation",** and **"Protection of consumer rights and credit history".**

Since 2016, the Bank is also accessible to the general public through social media, providing an opportunity for the Bank to publish news, press-releases and other materials about its activities.

During the year the Bank organized 4 events with the participation of mass media and 32 interviews. In 2016 the Bank received 29 written queriesto which proper responses were given in line with the procedures established under law. The Bank responded to 77 online requests filed from individuals and organizations and published 208 press releases about its activities. In addition, 30 releases on the Board meetings and 11 releases on the refinancing rate were published during the year.

Visitor Center

In 2016 the Visitor Center[9] received 10 513 visitors. This attendance rate is 17% higher from the relevant figure (9000) reported in the previous year.

7513 people visited the Center at the Bank in Yerevan.

The Center continued its educational project "One Day at the Central Bank" for the servicemen and alumni of educational institutions of the Armenian Ministry of Defense. In 2016 the Center received a total of 185 servicemen/alumni and teaching staff. In May 2016, upon proposal from the Ministry of Culture, the Visitor Center once again participated in the international program "Museums Night", and received 438 visitors.

In September 2-13, 2016, a traveling exhibition titled "History of Money Cycle in Armenia: finances for all" was organized in Stepanakert, Artsakh. The event consisted of two parts- coin history exhibition and a series of seminars on personal finances. The Program is designed to acquaint people and especially schoolchildren with the history of the national currency, the security features of the Dram, the main functions of the financial system, the rights of consumers of financial services. The exhibition in Stepanakert gathered nearly 3000 visitors (schoolchildren, students, teachers, lecturers and general public), which represents a 90% increase (1400 more visitors) compared to the attendance rate in Vanadzor last year.

In 2016, the Visitor Center cooperated with the Children of Armenia Fund, SOS Children's Villages, the Jinishian Memorial Foundation, the IAB and Smash Studio summer schools of the AGBU Vache and Tamar Manoukian High School (California), as well as with the Office of Financial System Mediator, as it hosted schoolchildren from almost all regions of Armenia.

In celebration of the 5th anniversary of the Visitor Center of the Bank, an international roundtable titled "The role of visitor centers/museums in shaping the image of modern central banks" was organized in Yerevan in September 27-30, 2016. A total of 16 heads and leading specialist of visitor centers and museums of central banks of 11 countries attended this event.

In late 2016, the Visitor Center organized an exhibition of historical and numismatic values of the State Treasury of the Ministry of Finance of Armenia. The exhibition will be open for one year.

9 See details on www.visitorcentre.cba.am, www.museum.cba.am, www.cba.am.

Internal audit

The function of internal audit of the Bank is entitled to the Audit Group which is set up by the Board of the Bank according to the Republic of Armenia Law on the Central Bank. The Group performs its functions in compliance with Armenian law, International Professional Practices Framework of the Institute of Internal Auditors as well as statutes developed by COSO Internal Control - Integrated Framework and CobIT information technologies documentation.

The Bank's internal audit function is performed in line with the definition of internal auditing and standards as well as the ethical rules, according to external evaluation report of experts of the Bank of Netherlands. To this end, the Audit Group is required to pass internal quality evaluation and, once in every five years, external quality evaluation. In 2016 self-assessment was carried out, and it will be followed by external evaluation in 2017.

The Group performs a risk-based internal audit by taking on audit engagements to enhance efficiency in risk management, control and governance processes.

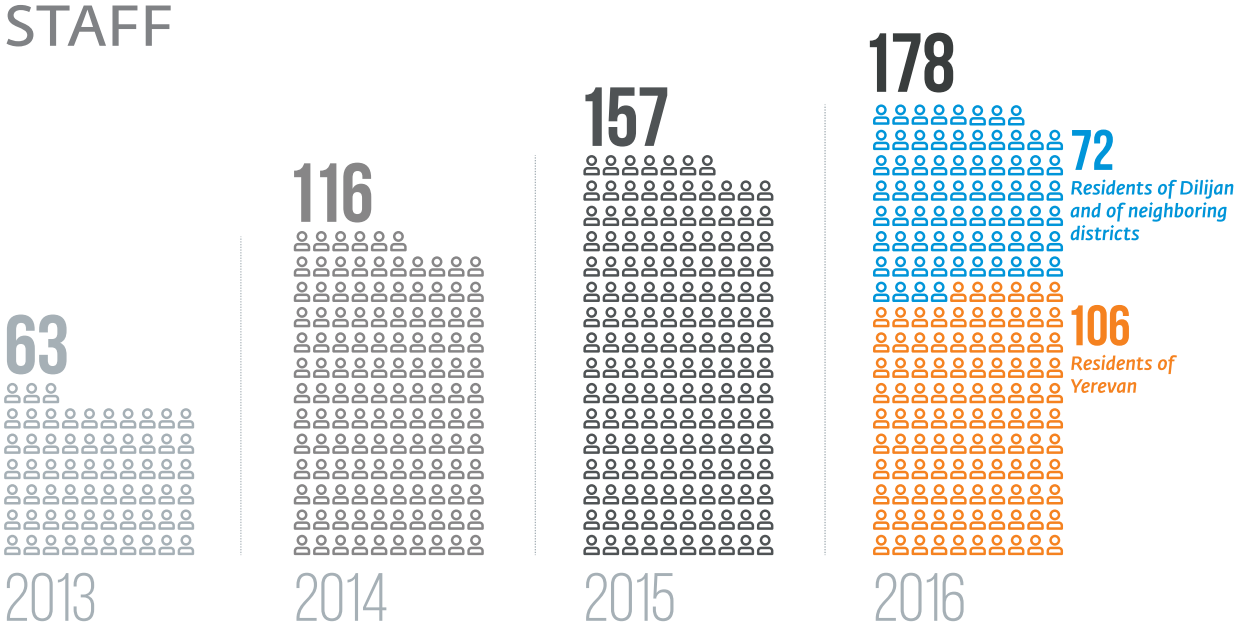
The employees of the Group are members to the Institute of Internal Auditors, Information System Audit and Control Association, Association of Chartered Certified Accountants, and hold international qualification (CIA, CRMA, CISA, CRISC, ACCA) as established by these institutions.

DILIJAN TRAINING AND RESEARCH CENTER

In 2016 the Dilijan Training and Research Center reported significant achievements and success in the three main areas of development - research, international cooperation and social responsibility. The Center's mission is to create an academic environment that will facilitate research activities in studyingthe current problems of economics and international practices of their handling (fosters a research-based decision-making culture), seeks to provide high-quality research on emerging economies and support the effective fulfilment of the objectives of the Bank. The Economic Research Department of the Bank takes the responsibility for realization of this idea.

The Center has gained some recognition as a platform for research and meeting of representatives of central banks, other financial institutions, international organizations and private sector businesses of Armenia, countries of the regionand Eastern European countries. During the year more employees of the Bank were relocated to the Dilijan Training and Research Center: the number of employees at the Center was 178 at the end of the year.

DILIJAN TRAINING AND RESEARCH CENTER
STAFF



The Dilijan TRC research group's vision is to be a lead authority in matters relating the monetary and financial stability policies in emerging economies. The research objectives of the Center include providing high quality research on the developing economies to support the policymakers of the Bank and raise the Bank's profile, delivering advice in formulating the monetary and financial stability policies, cooperating with research departments of international organizations, leading research and academic centers and central banks, promoting quality and organized research activities at the Bank.

The Bank successfully cooperates with international organizations, the Ministry of Finance, the Ministry of Economic Development and Investment, other government agencies, local banks, educational institutions as well as its structural units. In 2016 projects were carried out in collaboration with the Asian Development Bank, the International Monetary Fund and the World Bank.

In 2016 the employees of the Bank continued research activities that began in 2015 in cooperation with reputable experts who were invited from the world's best universities (University of Zurich, University of Barcelona, University of Notre Dame, Stanford University, etc.) and posted some progress. Their accomplishments in collaboration with

professors featured a great variety of topics, as follows: "Evaluating the impact of imports of capital goods on economic growth through building a multi-sector model", "Studying the impact of shocks of productivity on business cycles in Armenia", "The moral risk model in health insurance", "Possible influences of accession to the Eurasian Economic Union on Armenia's economy", "Analyzing and modeling the ways of organizing elections and their costs", "Analyzing bank mergers in Armenia", "Evaluating the effectiveness of urban development factor and spatial distribution of financial services", "Studying the impact foreign firms have on investments in research in developing economies", "Studying the behavior of firms in minimum capital threshold environments", "Researching the relation between financial intermediation and economic growth", "Distribution of public spending and structural changes in the economy", "Evaluating the financial education program in rural communities", "Modeling of trade flows between countries", "Migration and transfer flows modeling", "Continued expanding and automation of micro and macro databases", "Studying and applying multi-sector economic growth model solution algorithms and software packages", "Building micro databanks that include data on online prices of consumer goods, property sales, demand for labor sought through announcement, as well as data on a financial literacy survey; systematic micro databank-based analytics and research, report preparation and presentation", "Evaluating the demand for financial services and effectiveness depending on the choice of currency", and "The slowing China's economic growth and its impact on the economy of Armenia". The works were presented to the Board and at conferences. These earned awards and high appreciation of the members of the Board of the Bank.

Some of the works were presented at the annual conference of the Economic Society of Armenia and won in the nominations *Armen Alchian awards-general interest* and *Grigor Artzruni awards-young scholars*. The employees also participated in training courses abroad and received certificates for learning excellence.

In 2016 the Dilijan Training and Research Center hosted a number of conferences and courses in economics, actively attended by the Bank economists. Internal training courses were also arranged for the employees of other departments of the Bank.

In 2016 the Bank started a program of cooperation with the World Bank on developing effective ways in increasing financial literacy. The program constituted a series of interviews using behavioral research methodologies which the relevant staff of the World Bank and the Bank conducted in a handful of rural communities - about 15 villages of Tavush, Lori and Gegharqunik regions of Armenia. The studies have revealed behavioral assumptions which would underlie the formulation of a more effective financial literacy policy.

The cooperation with the American University of Armenia enabled 3 specialists of the Center to teach at the University's Master of Economics program, the summer session of which is conducted in the Center. Since 2013, 12 employees of the Bank have participated in the program. Three program graduates joined the Bank, and 9 out of 15 Bank employees who are program graduates now work in the Center.

A number of students of the American University of Armenia passed their summer pre-diploma internships in the Center.

In the last two years, in the framework of the Master of Economics program a total of 9 students passed their internship at the Bank.

Building on the past 3 years' experience, in 2016 the Bank sustained its cooperation with Harvard University. On July 15, 2016 the Bank signed a Memorandum of Understanding with Harvard University Davis Center for Russian and Eurasian Studies which strengthens and deepens the existing ties between two institutions. An agreement reached under the memorandum maintained that Harvard University host two employees of the Bank annually to conduct academic research in the field of finance, macroeconomics, public administration.

In 2016 students from Harvard University (3), the HUNANUniversity of China (1) and Stanford University (2 doctoral) passed their summer internship at the Dilijan Training and Research Center.

In the framework of international cooperation the Center has organized dozens of regional and international symposia, conferences, seminars, workshops, a Hackathon event contributing to technical development, forums, and etc.

On May 15-21, 2016 the Center hosted the working meeting of coordinators of technical assistance of central/national banks, the IMF, the Joint Vienna Institute and Capacity Building Institute to discuss future opportunities and new approaches of cooperation between these organizations and banks.

On May 30-June 4, 2016 an international seminar on implementation of the international standards to the financial statistics of EurAsEC (Eurasian Economic Union) was held at the Center.

On July 5-10, 2016 the Center hosted a "Regional Conference for Central Banks: Investments in Renminbi Markets", attended by 26 participants from 11 countries: Albania, Austria, Belarus, China, Czech Republic, India, Indonesia, Lebanon, Poland, Russia, Slovakia.

On September 13-19, 2016 a workshop on "Current matters in macroeconomics" was arranged in the Dilijan Training and Research Center in the framework of the 19th Macro-Modeling Conference. The event was unique by nature, number of participants, and was held for the first time in Armenia and the region. The conference brought together more than 130 economists from well-known universities of economics, central banks and international organizations. The conference lecturers included Chicago Northwestern University professor Lawrence Cristiano (as main lecturer of the conference), the US Johns Hopkins University professor Christopher Dickson Carroll, a Bank of France consultant and Dynare software author Michel Juillard, and the IMF's Economic Modeling Division research unit chief Douglas Laxton. The event was first openly-aired on the Bank's YouTube channel. The employees of the Bank delivered speeches as debaters for the research subject. The conference provided the participants, including employees of the Bank, a great opportunity for studying the international practices of the field which contributed to the future analysis, research and increase in the effectiveness of task accomplishment. In addition to consultation, the goal of the conference was making the Dilijan Training and Research Center recognizable internationally.

In 2016 the Bank hosted Allison Shapira, the founder of the "Global Public Speaking" LLC, and established a new framework for cooperation therewith. As a result, a training course titled "Public Speaking" has been organized for 30 employees of the Bank.

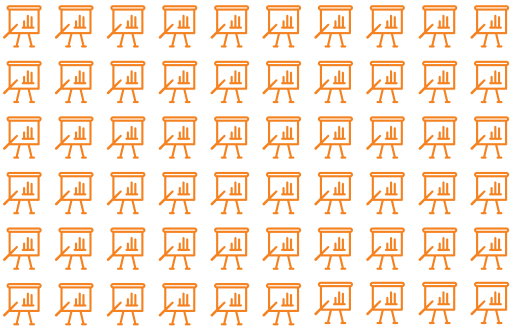
To make current trends and development of financial inclusion, new approaches to behavioral research more affordable and accessible in the financial sector, the Center arranged a regional training course "Behavioral Skills for Consumer Protection Policy" in collaboration with

the Alliance for Financial Inclusion", attended by 15 employees from the Bank and another 15 representatives of foreign banks.

Given the importance of capacity building for analytics on corporate tools and financial services of FIUs and preparing future trainers, the Egmont Group's technical support and training unit has arranged a seminar titled "Corporate tools and financial services as well as training the trainers". Approximately 20 members of FIUs as member to the Egmont Group attended the event which was held at the Dilijan Training and Research Center.

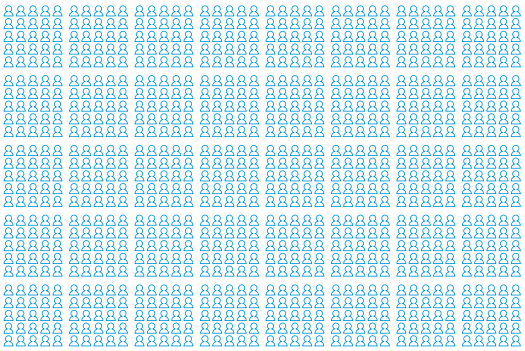
More than 121 representatives from banks of the EEU countries and other countries have attended 7 training courses conducted at the Dilijan Training and Research Center as part of cooperation between the Eurasian Economic Union member states' central/national banks. The Bank has organized tailor-made courses at which participants shared their experience, and 34 specialists of the Bank presented best practices of the Bank.

In 2016 the Dilijan Training and Research Center hosted a Hackathon event with the goal to combine digital technology and financial services. The organizers of the event were "Microsoft Armenia", "Dom-Daniel", NASDAQ OMX Armenia and the Central Bank. A total of 100 IT specialists as start-ups and active in business were teamed up into 21 groups to create innovative projects within a timeframe of 18 hours, using Block Chain, Cognitive Services, Cortana Analytics and Bot Framework, which are technological platforms of Microsoft. This event provided an opportunity for the private sector to implement the Hackathon participants' ideas into the financial system.



60+
courses

1000+
participants



COOPERATION WITH THE ACADEMIC WORLD



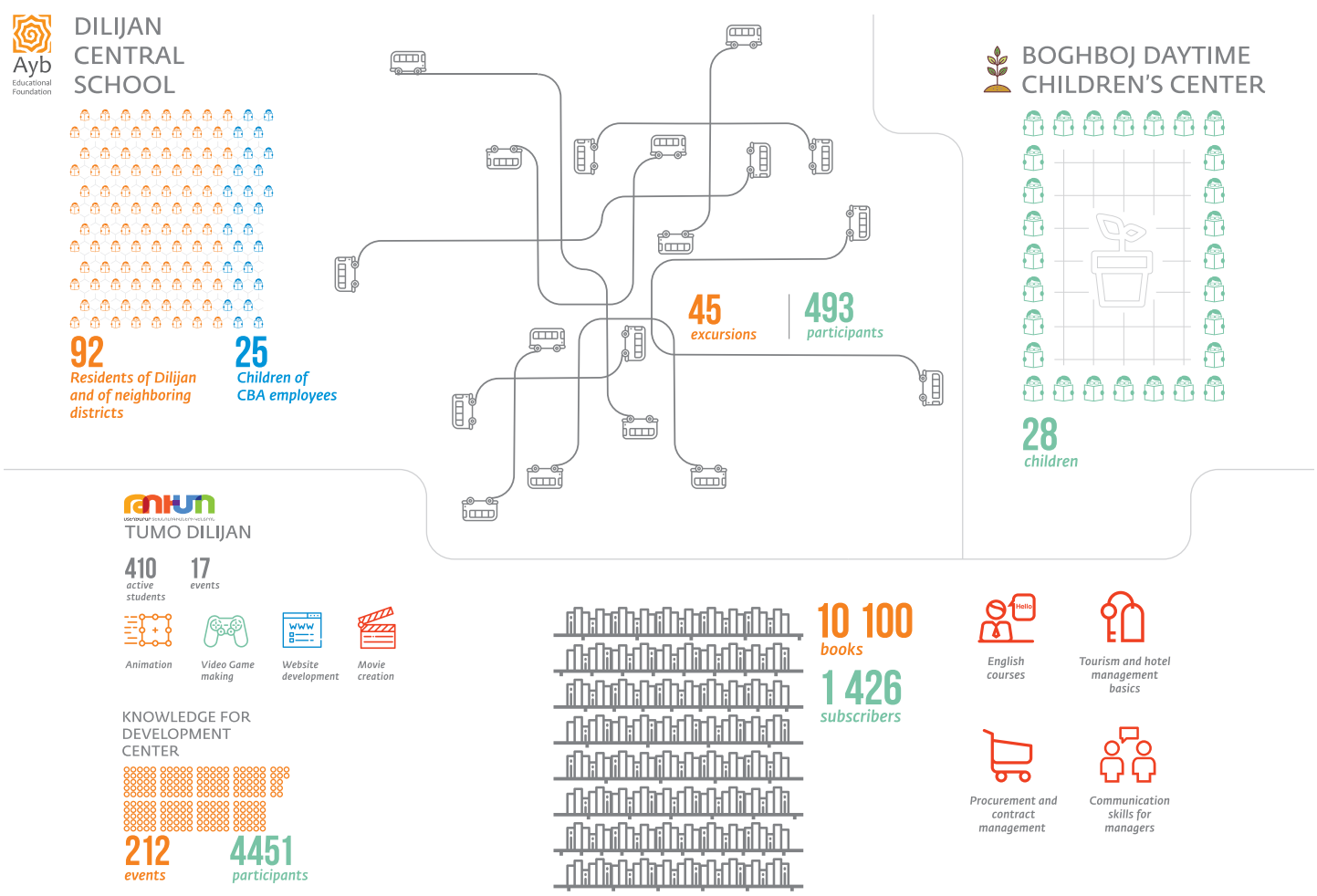
Contributing to the development and improvement of the town of Dilijan remains the Dilijan Training and Research Center's mission as part of **corporate social responsibility** for the community of the town.

The Central Bank continued to support the central school in Dilijan, the Tumo Center for Creative Technologies, the Knowledge for Development Center Library and other important infrastructures for the city life. The Center has initiated a number of educational programs in order to facilitate comprehensive development of children. The Dilijan Central School, which is managed by AYB Fund, is one of these projects. As much as 80% of the school children are Dilijan residents and part of the teaching staff, who were trained in the framework of the AYB Fund's curriculum, live in the neighborhoods.

The Knowledge for Development Center allows the town children and children from rural communities in the vicinity to use the library's rich literature, share a common platform for interaction and debate, take part in open classes and go to events organized

by the Center. In 2016 the Knowledge for Development Center had 1426 readers, 298 of who came this year. In 2016 the library provided 5041 books, 325 more than the previous year. The Center was proactive in organizing a variety of events to let them develop creativity in themselves.

Partnering with TUMO, a center for creative technologies, is another initiative of the Dilijan Training and Research Center, which enables 410 children, including 15 children in villages at the border, to benefit from the programs offered by the Center. Teenagers aged 12-18 are increasingly interested in the projectas the number of young people having attending the Center this year has increased by 100. Over time, the range of creative technologies projects offered by TUMO has expanded.



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CENTRAL BANK
OF THE REPUBLIC OF ARMENIA

International Financial Reporting Standards

Consolidated financial statements

for the year ended 31 December 2016
together with independent auditor's report

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բարեկեցիկ աշխարհ

Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia (the Bank) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year ended 31 December 2016 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 22 April 2016.

Other information included in the Group's 2016 Annual report

Other information consists of the information included in the 2016 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young CJSC
Yerevan, Armenia

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

31 March 2017

Consolidated statement of comprehensive income
For the year ended 31 December 2016

In thousands of Armenian Drams

	Note	2016	2015
Interest income	4	24,696,468	37,900,805
Interest expense	5	(10,229,329)	(13,194,070)
Net interest income		**14,467,139**	**24,706,735**
Fee and commission income		57,810	74,272
Fee and commission expense		(858,255)	(598,098)
Net foreign exchange (loss)/gain	6	(2,647,523)	3,622,430
Net gain/(loss) on derivatives	7	637,643	(2,326,440)
Net gain on financial instruments at fair value through profit or loss	8	4,321,214	1,729,051
Other income	9	3,576,016	4,298,004
Cost of production of banknotes, coins and numismatics	10	(466,448)	(2,261,951)
Other expenses	11	(21,004,558)	(18,697,378)
(Loss)/profit before tax		**(1,916,962)**	**10,546,625**
Income tax expense		(1,468,087)	(1,201,644)
(Loss)/profit for the year		**(3,385,049)**	**9,344,981**
(Loss)/profit is attributable to:			
Owners of the Bank		(3,400,332)	9,330,663
Non-controlling interest		15,283	14,318
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Net unrealised gain/(loss) from changes in fair value of available-for-sale assets		**2,216,153**	**(1,351,040)**
Other comprehensive income/(loss) for the year		**2,216,153**	**(1,351,040)**
Total comprehensive (loss)/income for the year		**(1,168,896)**	**7,993,941**
Total comprehensive (loss)/income is attributable to:			
Owners of the Bank		(1,185,675)	7,976,405
Non-controlling interest		16,779	17,536

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 31 March 2017 and were signed by:

ARTHUR JAVADYAN

Chairman

of the Central Bank of the Republic of Armenia



HAYKANUSH HAKOBYAN

Chief Accountant

of the Central Bank of the Republic of Armenia



The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
As at 31 December 2016

In thousands of Armenian Drams

	Note	31 December 2016	31 December 2015
ASSETS			
Foreign currency assets			
Cash		24,771,453	12,117,804
Placements with banks and other financial institutions	12	423,000,092	270,495,708
Financial instruments at fair value through profit or loss	13	591,641,527	512,762,352
Derivative financial assets	14	-	103,306
Available-for-sale assets	15	2,209,431	2,222,840
Held-to-maturity assets	15	31,431,281	63,733,713
Placements with the IMF	16	85,480,295	63,055,674
Other assets		1,612,496	98,682
Total foreign currency assets		**1,160,146,575**	**924,590,079**
Domestic currency assets			
Placements and investments with banks and other financial institutions	12	284,341,346	316,776,643
Financial instruments at fair value through profit or loss	13	2,352,333	1,665,748
Available-for-sale assets	15	101,788,443	101,286,020
Property and equipment	17	75,507,181	76,882,574
Intangible assets	18	1,582,082	1,739,384
Other assets	19	13,491,471	12,593,456
Total domestic currency assets		**479,062,856**	**510,943,825**
TOTAL ASSETS		**1,639,209,431**	**1,435,533,904**
LIABILITIES			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	258,230,092	186,992,916
Due to the Government of the Republic of Armenia	23	1,195,241	1,309,572
Derivative financial liabilities	14	79,950	30,727
Due to the IMF	16	279,123,932	252,939,131
Other borrowed funds	21	113,192,723	99,940,464
Other liabilities		367,852	393,461
Total foreign currency liabilities		**652,189,790**	**541,606,271**
Domestic currency liabilities			
Notes and coins in circulation		455,401,582	413,613,757
Deposits and accounts of financial and other institutions	20	329,459,340	324,813,907
Due to the Government of the Republic of Armenia	23	183,925,544	135,230,179
Debt securities issued	24	8,788,038	3,244,388
Other liabilities	22	4,067,367	3,014,206
Total domestic currency liabilities		**981,641,871**	**879,916,437**
TOTAL LIABILITIES		**1,633,831,661**	**1,421,522,708**

Consolidated statement of financial position
As at 31 December 2016

In thousands of Armenian Drams

	Note	31 December 2016	31 December 2015
EQUITY			
Issued capital	25	100,000	100,000
General reserve		25,480,248	23,614,115
Promissory Note issued by the Government	25	73,810,843	81,275,373
Revaluation reserve for available-for-sale assets	25	1,083,657	(1,131,000)
Accumulated deficit		(95,840,273)	(90,573,808)
Net assets attributable to owners of the Bank		**4,634,475**	**13,284,680**
Non-controlling interest		743,295	726,516
Total equity		**5,377,770**	**14,011,196**
TOTAL LIABILITIES AND EQUITY		**1,639,209,431**	**1,435,533,904**

The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016

In thousands of Armenian Drams

	Attributable to owners of the Bank							
	Issued capital	General reserve	Promissory note issued by the Government	Revaluation reserve for available-for-sale assets	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	**100,000**	**17,389,049**	**106,175,637**	**223,258**	**(93,679,405)**	**30,208,539**	**708,980**	**30,917,519**
Distribution of profit	**-**	**6,225,066**	**(24,900,264)**	**-**	**(6,225,066)**	**(24,900,264)**	**-**	**(24,900,264)**
Profit for the year	-	-	-	-	9,330,663	9,330,663	14,318	9,344,981
Other comprehensive loss	-	-	-	(1,354,258)	-	(1,354,258)	3,218	(1,351,040)
Total comprehensive income for the year	**-**	**-**	**-**	**(1,354,258)**	**9,330,663**	**7,976,405**	**17,536**	**7,993,941**
Balance at 31 December 2015	**100,000**	**23,614,115**	**81,275,373**	**(1,131,000)**	**(90,573,808)**	**13,284,680**	**726,516**	**14,011,196**
Distribution of profit	**-**	**1,866,133**	**(7,464,530)**	**-**	**(1,866,133)**	**(7,464,530)**	**-**	**(7,464,530)**
Loss for the year	-	-	-	-	(3,400,332)	(3,400,332)	15,283	(3,385,049)
Other comprehensive income	-	-	-	2,214,657	-	2,214,657	1,496	2,216,153
Total comprehensive loss for the year	**-**	**-**	**-**	**2,214,657**	**(3,400,332)**	**(1,185,675)**	**16,779**	**(1,168,896)**
Balance at 31 December 2016	**100,000**	**25,480,248**	**73,810,843**	**1,083,657**	**(95,840,273)**	**4,634,475**	**743,295**	**5,377,770**

The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2016

In thousands of Armenian Drams

	Note	2016	2015
Cash flows from operating activities			
(Loss)/profit before tax		(1,916,962)	10,546,625
Adjustments to reconcile (loss)/profit for the year to net cash flows			
Depreciation and amortisation	11	4,943,278	4,798,352
Gain from disposal of property and equipment		(21,523)	(18,318)
Change in interests receivable		(775,343)	492,606
Change in interests payable		374,575	143,094
Net (loss)/gain from foreign exchange translation	6	2,883,382	(2,747,923)
Net loss from re-measurement of financial instruments at fair value		1,092,210	2,273,328
Income tax paid		(1,592,996)	(764,929)
Cash flows from operating activities before changes in operating assets and liabilities		**4,986,621**	**14,722,835**
Net (increase)/decrease in operating assets			
Placements with banks and other financial institutions in foreign currency		(14,720,786)	35,363,728
Financial instruments at fair value through profit or loss and derivative financial instruments		(81,862,598)	(164,127,883)
Placements with the IMF		(6,565,535)	-
Placements and investments with banks and financial other institutions in domestic currency		32,553,231	65,488,664
Other assets		(1,912,755)	304,157
Net increase/(decrease) in operating liabilities			
Notes and coins in circulation		41,787,825	1,268,815
Deposits and accounts of financial and other institutions		76,193,210	38,355,781
Due to the Government of the Republic of Armenia		45,989,830	17,352,744
Debt securities issued		5,388,019	(796,564)
Other liabilities		1,151,076	(72,015)
Net cash flows from operating activities		**102,988,138**	**7,860,262**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(4,067,665)	(3,198,718)
Proceeds from sale of property and equipment		41,889	113,996
Proceeds from sale and redemption of available-for-sale assets		3,377,068	–
Purchase of held-to-maturity assets		(30,746,502)	(90,363,945)
Proceeds from redemption of held-to-maturity assets		49,747,753	119,874,639
Net cash flows from investing activities		**18,352,543**	**26,425,972**

Consolidated statement of cash flows
For the year ended 31 December 2016

In thousands of Armenian Drams

	Note	2016	2015
Cash flows from financing activities			
Loans received		38,898,587	42,113,260
Loans redeemed		(7,998,714)	(14,641,932)
Net cash flows from financing activities		**30,899,873**	**27,471,328**
Effect of exchange rate changes on cash and cash equivalents		**(1,331,421)**	**(1,559,643)**
Net increase in cash and cash equivalents		**150,909,133**	**60,197,919**
Cash and cash equivalents at the beginning of the year	28	266,603,602	206,405,683
Cash and cash equivalents at the end of the year	28	**417,512,735**	**266,603,602**
Supplementary information			
Interest received		23,921,125	38,393,411
Interest paid		(9,854,754)	(13,050,976)

The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements.

1. Principal activities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2016 and for the year then ended for the Central Bank of the Republic of Armenia (the "Bank") and its subsidiaries (together referred to as the "Group").

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

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

The registered address of the Bank is 6 Vazgen Sargsyan street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2016 was 791 (2015: 779).

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

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

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

The Bank also:

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

The Bank's largest subsidiaries are as follows:

Name	Country of incorporation	Principal activity	Controlled %		Date of establishment
			2016	2015	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	57.5	57.5	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/ delivery of cash	100	100	April 1998
"Panarmenian Bank" OJSC	Republic of Armenia	Banking	100	100	December 2009
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100	100	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance Infrastructure support	100	100	December 2013

2. Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year then ended 31 December 2016 for the Bank and its subsidiaries.

(b) Basis of measurement

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

(c) Form of presentation of the financial statements

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

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

Fair value

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

Assessment of impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the

payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Transactions with related parties

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

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

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

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

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

(g) Adoption of New or Revised Standards and Interpretations

The Group has adopted the following new IFRS standards and interpretations which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative (issued in December 2014)

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued in December 2014)

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

Annual improvements to IFRSs 2014 (issued in September 2014)

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

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

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

IFRS 7 Financial Instruments: Disclosures

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

The improvements did not have any material impact on the Group's consolidated financial statements.

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2016. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

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

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

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

Associates

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

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

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

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

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

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

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

As at 31 December 2016 and 31 December 2015, the exchange rates used for translating foreign currency balances were as follows:

	31 December 2016	31 December 2015
AMD / 1 US dollar	483.94	483.75
AMD / 1 Euro	512.20	528.69
AMD / 1 SDR (Special Drawing Rights)	650 .58	670.35

(i) Cash and cash equivalents

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

(j) Financial instruments – key measurement terms

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

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

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

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

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

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

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

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

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity assets, or available-for-sale assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in the cases described below.

Date of recognition

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

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category "Financial assets measured at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

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

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in profit or loss as net gain/(loss) on financial instruments at fair value through profit or loss or derivatives or net foreign exchange gain/(loss), depending on the nature of the instrument.

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

Held-to-maturity assets

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

Loans and receivables

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

Available-for-sale assets

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

Reclassification of financial assets

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

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

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

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

Borrowings

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

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

Accounting for zero interest rate loans

The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred

income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

Derecognition of financial assets and liabilities

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

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

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

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

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

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

(k) Offsetting

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

(l) Repurchase and reverse repurchase agreements

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

Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell ("reverse repo agreements") are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price,

adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

(m) Securities lending and borrowing

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

(n) Notes and coins in circulation

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

(o) Numismatic coins

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

(p) Property and equipment

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

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

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

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

Depreciation

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

	2016	2015
Land and buildings		
Buildings	30-80 years	30-80 years
Building technical systems	3-20 years	3-15 years
Networks, computer and other equipment	2-15 years	2-20 years
Vehicles	5 years	5 years

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

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

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

(r) Intangible assets

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

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

(s) Operating leases – Group as lessee

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

(t) Impairment

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

Placements with banks and other financial institutions

For amounts due from financial institutions carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective

evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. The interest income is accrued at the initial effective interest rate of asset. Placements with banks and other financial institutions together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

The present value of the estimated future cash flows is determined by their discounting at the financial asset's original effective interest rate. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Held-to-maturity assets

For held-to-maturity assets the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

Available-for-sale assets

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

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

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

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

Non-financial assets

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

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

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

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(v) Taxation

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

(w) Issued capital

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

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

(x) Profit allocation

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

a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;

b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

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

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

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

(y) Contingencies

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

(z) Interest income and expense

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

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

(aa) Fee and commission income

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

3. New accounting pronouncements

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

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

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

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

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

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

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and

leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services.

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

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)

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

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

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

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017)

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group does not anticipate that adopting the amendments would have a material impact on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued in 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)

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

4. Interest income

In thousands of Armenian Drams

	2016	2015
Interest income from foreign currency assets		
Nostro accounts	461,374	121,076
Assets held-to-maturity	294,654	296,485
Term deposits	264,119	157,314
Placements with the IMF	2,394	784
Other	10,843	49,582
Total interest income from foreign currency assets	**1,033,384**	**625,241**
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	21,314,286	35,031,817
Available-for-sale assets	2,348,798	2,243,747
Total interest income from domestic currency assets	**23,663,084**	**37,275,564**
Total interest income	**24,696,468**	**37,900,805**

5. Interest expense

In thousands of Armenian Drams

	2016	2015
Interest expense on foreign currency liabilities		
Other borrowed funds	2,074,742	1,362,662
Due to the IMF	1,270,377	1,137,224
Other	-	1,867
Total interest expense on foreign currency liabilities	**3,345,119**	**2,501,753**
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	5,431,734	10,008,453
Deposits and accounts of financial and other institutions	846,537	240,398
Debt securities issued	511,061	357,806
Other	94,878	85,660
Total interest expense on domestic currency liabilities	**6,884,210**	**10,692,317**
Total interest expense	**10,229,329**	**13,194,070**

6. Net foreign exchange (loss)/gain

In thousands of Armenian Drams

	2016	2015
Net (loss)/gain from foreign exchange translation	(2,883,382)	2,747,923
Net gain on spot transactions	235,859	874,507
Total net foreign exchange (loss)/gain	**(2,647,523)**	**3,622,430**

Included in the net (loss)/gain from revaluation of monetary assets and liabilities is a foreign exchange translation loss of AMD 1,874,640 thousand on financial instruments at fair value through profit or loss (2015: loss in the amount of AMD 3,509,024 thousand).

7. Net gain/(loss) on derivatives

In thousands of Armenian Drams

	2016	2015
Net gain/(loss) on forward contract with the Government (Note 27)	547,349	(978,171)
Net gain/(loss) on futures under own management	90,294	(984,393)
Net loss on swaps	-	(363,876)
Total net gain/(loss) on derivatives	**637,643**	**(2,326,440)**

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

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

In thousands of Armenian Drams

	2016	2015
Net gain on foreign securities under own management (excluding foreign exchange translation*)	3,684,946	1,406,599
Net gain on assets under trust management (excluding foreign exchange translation*)	522,643	290,126
Net gain on the Government securities	292,002	213,702
Trust management fees (excluding foreign exchange translation*)	(178,377)	(181,376)
Total net gain on financial instruments at fair value through profit or loss	**4,321,214**	**1,729,051**

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

9. Other income

In thousands of Armenian Drams

	2016	2015
Financial agency fee	898,319	1,379,925
Numismatic coins	495,206	607,117
Other	2,182,491	2,310,962
Total other income	**3,576,016**	**4,298,004**

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

During the year ended 31 December 2016, the amount of AMD 1,876,354 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2015: AMD 1,764,297 thousand).

10. Cost of production of banknotes, coins and numismatics

In thousands of Armenian Drams

	2016	2015
Production of numismatic coins sold during the year	466,148	487,998
Production of banknotes and coins	300	1,773,953
Total cost of production of banknotes, coins and numismatics	**466,448**	**2,261,951**

11. Other expenses

In thousands of Armenian Drams

	2016	2015
Employee compensation, staff training and related payments	8,743,184	8,115,218
Depreciation and amortisation	4,943,278	4,798,352
Repairs and maintenance	1,862,214	1,764,893
Education, research and development of new projects	1,315,819	204,030
Expenses on development and maintenance of payment system	482,651	399,446
Security and insurance expenses	443,721	441,635
Professional services	353,809	192,686
Expenses for Basel requirements implementation	321,570	306,682
Other	2,538,312	2,474,436
Total other expenses	**21,004,558**	**18,697,378**

During the year ended 31 December 2016 and 31 December 2015, the expenses included into "Other" line represent subscription fees, representation expenses, printing expenses, communication expenses, utilities, rent expenses and stationary.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2016 and 31 December 2015 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements and investments with banks and other financial institutions

Placements with banks and other financial institutions in foreign currency

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	391,056,963	253,102,636
Term deposits	29,028,319	15,440,510
Cash included in assets under trust management	2,914,810	1,952,562
Total placements with banks and other financial institutions in foreign currency	**423,000,092**	**270,495,708**

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

As at 31 December 2016 the Group had placements in one bank with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2016 amounted to AMD 265,089,384 thousand (31 December 2015: placements with one bank amounted to AMD 190,866,648 thousand).

The term deposits have up to one months remaining maturity with the interest rate from 0.28% to 1.02% (31 December 2015: 0.51% to 0.52%).

As at 31 December 2016 AMD 2,914,810 thousand balance of cash included in assets under trust management (31 December 2015: AMD 1,952,562 thousand) represent balance maintained by the Bank for settlements under operations with foreign securities within the framework of Agreement on investment management. As at 31 December 2016 and 31 December 2015 the amount of margin reserve for settlements under interest rate futures was included into the line "Cash included in assets under trust management".

As at 31 December 2016 AMD 1,451,820 thousand of term deposits denominated in foreign currency (31 December 2015: AMD 1,452,060 thousand of term deposits) are pledged to secure bonds issued by the Group (refer to Note 24).

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

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Placements and investments with banks and other financial institutions in domestic currency		
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	105,894,951	85,351,415
Mortgage refinancing	61,258,612	49,183,495
Deposits and current accounts placed in commercial banks	50,364,096	42,527,391
Repurchase agreements and other overnight facilities	45,707,770	122,365,066
Investments classified as loans and receivables	13,791,080	6,448,154
Subordinated loans	-	3,079,245
Other loans	7,324,837	7,821,877
Total placements and investments with banks and other financial institutions in domestic currency	**284,341,346**	**316,776,643**

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

As at 31 December 2016 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2015: two banks).

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

The Group accepted securities on reverse repurchase agreements as collateral for commercial loans, which the Group is permitted to sell or repledge. As at 31 December 2016 amounts receivable under reverse repurchase agreements are with 4 resident banks and three other financial institutions (31 December 2015: 16 resident banks and two other financial institutions) and are collateralised by the following securities:

In thousands of Armenian Drams

	Fair value as at 31 December 2016	Fair value as at 31 December 2015
Treasury bonds of the Government	45,178,235	109,253,680
Eurobonds issued by the Government	2,078,547	11,837,588
Corporate bonds	749,595	4,761,830
Total	**48,006,377**	**125,853,098**

AMD 289,360 thousand out of AMD 749,595 thousand corporate bonds as at 31 December 2016 (31 December 2015: AMD 821,663 thousand out of AMD 4,761,830 thousand) represents debt securities held by a Group's subsidiary.

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks under the following

programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- *SME Support.* The objective of the SME support Programs of the World Bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2015 a new loan was received from EIB, the loan will be used in order to make lending to SMEs in agro-processing, rural and tourism sectors through commercial banks and universal credit organisations. During 2016 a new loan was received under "Support for the financing of the Energy Efficiency in MSME sector" Program. The objective of the Program is to introduce and expand the offer of energy efficiency loans in Armenian financial institutions and to cover at the same time the demand for energy efficiency loans from micro, small and medium sized enterprises (MSME). The Program aims at contributing to reduce the energy demand of Armenian MSME and the volume of CO2-emissions as well as to enhance the competitiveness of the enterprises.
- *Development of the Renewable Energies.* The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- *Development of sustainable housing market*. The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

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

As at 31 December 2016 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 16 domestic banks (31 December 2015: 15 domestic banks) and 9 financial institutions (31 December 2015: 7 financial institutions).

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2015: 11 years).

As at 31 December 2016 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 60,995,474 thousand (31 December 2015: AMD 49,059,324 thousand).

As at 31 December 2016 mortgage refinancing loans in the amount of AMD 7,024,213 thousand (31 December 2015: AMD 4,287,045 thousand) are pledged to secure the Group's borrowings from the Government (refer to Note 23) and bonds issued (refer to Note 24).

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

As at 31 December 2016 there are no deposits and current accounts denominated in domestic currency placed in banks pledged to secure bonds issued by the Group (31 December 2015: AMD 30,000 thousand) (refer to Note 24).

The management of the Group has classified investments in the amount of AMD 13,791,080 thousand acquired during the year ended 31 December 2016 as loans and receivables (31 December 2015: AMD 6,448,154 thousand). Such decision was made due to the absence of liquid market for these investments and taking into account that the Group has ability and intention to hold them for the foreseeable future.

Subordinated loans category include loans provided to commercial banks on subordinated terms starting from 2009 with initial maturity of five years aimed to build sufficient capacity in the banking system in order to absorb potential crisis-derived risks. As at 31 December 2016 subordinated loans are fully repaid.

Other loans are secured by real estate in the amount of AMD 5,371,933 thousand (31 December 2015: AMD 5,516,166 thousand), movable property and other assets in the amount of AMD 1,279,430 thousand (31 December 2015: AMD 1,680,204 thousand).

13. Financial instruments at fair value through profit or loss

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Assets		
Debt and other fixed-income instruments in foreign currency – Quoted		
Foreign bonds under own management	515,867,650	434,162,433
Foreign bonds under trust management	75,773,877	78,599,919
Total financial instruments at fair value through profit or loss in foreign currency – Quoted	**591,641,527**	**512,762,352**
Debt and other fixed-income instruments in domestic currency		
Securities of the Government of the Republic of Armenia	2,352,333	1,665,748
Total financial instruments at fair value through profit or loss in domestic currency	**2,352,333**	**1,665,748**
Total financial instruments at fair value through profit or loss	**593,993,860**	**514,428,100**

As at 31 December 2016 and 31 December 2015 foreign securities at fair value under own management include:

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Government bonds	250,595,989	248,812,939
State agency bonds	117,820,190	106,179,924
Other securities	147,451,471	79,169,570
Total	**515,867,650**	**434,162,433**

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

As at 31 December 2016 and 31 December 2015 the foreign bonds under trust management include:

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Government bonds	26,833,437	17,227,083
State agency bonds	21,829,108	13,215,316
Other securities	27,111,332	48,157,520
Total	**75,773,877**	**78,599,919**

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

As at 31 December 2016 and 31 December 2015 government securities denominated in domestic currency are represented by coupon and discount treasury bills of the Government.

14. Derivative financial instruments

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Derivative financial assets		
Foreign currency contracts under trust management	-	103,306
Total derivative financial assets	**-**	**103,306**
Derivative financial liabilities		
Forward contract with the Government	28,177	30,727
Foreign currency contracts under trust management	51,773	-
Total derivative financial liabilities	**79,950**	**30,727**

As at 31 December 2016 the Group had 63 short futures contracts with the nominal value of EUR 9,354 thousand or AMD 4,791,155 thousand at the year-end official exchange rate of EUR to Armenian Dram, which were under discretionary asset management by the international financial institution for the purposes of regulating the interest rate risk. These operations were performed as a part of Investment Management Agreement (31 December 2015: 139 short futures contracts with the nominal value of EUR 19,304 thousand or AMD 10,206,001 thousand).

In thousands of Armenian Drams

	Nominal value		Fair value			
	2016	2015	2016		2015	
			Asset	Liability	Asset	Liability
Interest rate futures	4,791,155	10,206,001	-	51,773	103,306	-
Total foreign exchange futures contracts under trust management	**4,791,155**	**10,206,001**	**-**	**51,773**	**103,306**	**-**
Currency forward contract with the Government	1,626,682	1,226,884	-	28,177	-	30,727
Total	**6,417,837**	**11,432,885**	**-**	**79,950**	**103,306**	**30,727**

15. Investment securities

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Available-for-sale investments in foreign currency – Unquoted		
Equity investments		
Foreign securities	2,207,785	2,221,194
Equity investments at cost		
SWIFT	1,646	1,646
Total available-for-sale investments in foreign currency – Unquoted	**2,209,431**	**2,222,840**
Available-for-sale investments in domestic currency		
Debt instruments		
Securities of the Government of the Republic of Armenia	21,204,072	13,770,172
Promissory note of the Government (Note 25)	73,810,843	81,275,373
Corporate bonds	6,111,734	5,629,794
Total debt instruments	**101,126,649**	**100,675,339**
Equity investments at cost		
Other investments	661,794	610,681
Total equity investments	**661,794**	**610,681**
Total available-for-sale investments in domestic currency	**101,788,443**	**101,286,020**
Total available-for-sale investments	**103,997,874**	**103,508,860**
Held-to-maturity investments in foreign currency		
Foreign bonds	31,431,281	63,733,713
Total held-to-maturity investments in foreign currency	**31,431,281**	**63,733,713**

Foreign securities classified as available-for-sale as at 31 December 2016 and as at 31 December 2015 represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

Debt securities denominated in domestic currency and classified as available-for-sale represent coupon securities issued by the Government of the Republic of Armenia and securities issued by local investment and development funds.

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

In 2016 a non-interest bearing on-demand promissory note in the amount of AMD 73,810,843 thousand (2015: AMD 81,275,373 thousand) was re-issued by the Government. The management believes that the carrying amount of the promissory note approximates its fair value.

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

During the year ended 31 December 2016 the Group reclassified certain financial assets maturing in 2016 out of held-to-maturity category to available-for-sale category due to restructure of the Bank's assets denominated in foreign currency. The need for restructuring arose as a result of changes in the structure of SDR currency basket by the IMF. The reclassification took place close to maturity date of the assets. The total carrying value of these assets as of the date of reclassification was AMD 8,982,014 thousand, fair value of AMD 9,029,947 thousand.

16. Operations with the International Monetary Fund

Assets due from the IMF

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Placements with the IMF		
Membership quota in the IMF (subscription)	83,794,704	61,672,200
SDR holdings in the IMF	1,684,319	1,383,162
Accrued interest	1,272	312
Total placements with the IMF	**85,480,295**	**63,055,674**

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

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

the year-end official exchange rate of Armenian Dram to SDR (2015: SDR 92,000 thousand, or AMD 61,672,200 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

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

Movements in SDR holdings account during the year ended 31 December 2016 and 31 December 2015 were as follows:

In thousands of Armenian Drams

	2016	2015
Balance of SDR holdings as at 1 January	**1,383,162**	**2,963,798**
Receipt of funds from the IMF under Extended Fund Facility program:		
In favour of the Bank	20,816,691	4,658,010
Purchase of SDRs	4,459,268	6,960,067
Transfer of funds under EFF Program to Nostro accounts of the Group in other banks	(12,783,356)	-
Repayment of loans to the IMF:		
On behalf of the Bank		
PRGT	(2,131,827)	(3,020,627)
SBA	-	(1,923,050)
EFF	(8,653,383)	(4,862,374)
On behalf of the Government		
SBA	(6,175,021)	(2,035,810)
Payment of loan related commission	(136,129)	(62,663)
Other income	39,014	15,616
Other fees	(2,090)	(999)
Payment of interest for use of the IMF resources:		
On behalf of the Bank	(1,163,336)	(1,087,467)
On behalf of the Government	-	(12,639)
Payment of interest for use of funds received under SDR allocation	(33,345)	(29,537)
Income on SDR holdings	1,444	633
Reserve tranche Purchase	6,199,880	-
Translation differences	(136,653)	(179,796)
Balance of SDR holdings as at 31 December	**1,684,319**	**1,383,162**

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

During 2015 funds totalling SDR 11,740 thousand were received under Extended Fund Facility (the "EFF") program. The SDR 7,000 thousand was received into SDR holdings account. The remaining part was denominated in USD and received by the Bank on one of its corresponding accounts denominated in USD. All these funds were obtained by the Bank on behalf of itself.

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

Liabilities due to the IMF

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Securities account	159,285,304	140,663,079
Adjustment account for AMD liabilities to the IMF	(8,201,736)	143,670
Account 1	48,356,946	27,929,924
Account 2	2,637	2,606
SDR allocation	57,243,662	58,983,198
ECF:	22,187,380	25,021,484
Carrying value	21,161,000	23,740,786
Deferred income	1,026,380	1,280,698
Interest accrued	249,739	195,170
Total liabilities due to the IMF	**279,123,932**	**252,939,131**

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

As at 31 December 2016 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 159,285,304 thousand (31 December 2015: AMD 140,663,079 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2016 represents liabilities as per Extended Credit Facility and Extended Fund Facility.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2016 the ECF bears no interest (2015: 0%). The loans outstanding as at 31 December 2016 mature in May 2017 – June 2023 (31 December 2015: May 2016 – June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2016 mature in June 2017 – December 2026 (31 December 2015: June 2016 – November 2025).

The Stand-By Arrangement (the SBA) is provided by the IMF to member countries to overcome their payment problems during crisis. Part of loans under the SBA was obtained directly by the Bank and another part was obtained by the Bank on behalf of the Government. The SBA interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. Till November 2012 the IMF accounted surcharge of 2% per annum on the part of the SBA and the EFF exceeding 300% of the membership quota. From November 2012 to 30 September 2013 the IMF accounted surcharge of 3% per annum, as it was already three years that the total amount of SBA and the EFF exceeded 300% of the membership quota. Starting from October 2013 the IMF does not account any surcharge as the amount of the SBA and the EFF is less than 300% of the membership quota. As at 31 December 2015 the amount of liability of the Bank under the SBA was repaid.

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

17. Property and equipment

In thousands of Armenian Drams

	Land and buildings	Networks, computer and other equipment	Vehicles	Construction in progress	Total
Cost					
Balance as at 1 January 2015	**64,648,053**	**23,113,082**	**618,138**	**5,199,409**	**93,578,682**
Additions	24,450	450,098	77,184	2,524,907	3,076,639
Disposals	(150,508)	(311,133)	(25,668)	-	(487,309)
Transfer	7,313,395	125,510	-	(7,438,905)	-
Balance as at 31 December 2015	**71,835,390**	**23,377,557**	**669,654**	**285,411**	**96,168,012**
Additions	80,585	409,125	56,018	2,661,468	3,207,196
Disposals	-	(460,633)	(51,356)	-	(511,989)
Transfer	972,155	(972,155)	-	-	-
Balance as at 31 December 2016	**72,888,130**	**22,353,894**	**674,316**	**2,946,879**	**98,863,219**
Depreciation					
Balance as at 1 January 2015	**6,089,210**	**8,885,383**	**369,266**	**-**	**15,343,859**
Charge for the period	2,528,036	1,820,554	68,340	-	4,416,930
Disposals	(149,001)	(302,736)	(23,614)	-	(475,351)
Balance as at 31 December 2015	**8,468,245**	**10,403,201**	**413,992**	**-**	**19,285,438**
Charge for the period	2,713,844	1,777,485	70,893	-	4,562,222
Disposals	-	(443,893)	(47,729)	-	(491,622)
Transfer	179,117	(179,117)	-	-	-
Balance as at 31 December 2016	**11,361,206**	**11,557,676**	**437,156**	**-**	**23,356,038**
Carrying amount					
At 31 December 2016	**61,526,924**	**10,796,218**	**237,160**	**2,946,879**	**75,507,181**
At 31 December 2015	**63,367,145**	**12,974,356**	**255,662**	**285,411**	**76,882,574**

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

18. Intangible assets

In thousands of Armenian Drams

	Computer software
Cost	
Balance as at 1 January 2015	**2,763,116**
Additions	341,909
Disposals	(13,607)
Balance as at 31 December 2015	**3,091,418**
Additions	223,754
Disposals	-
Balance as at 31 December 2016	**3,315,172**
Amortisation	
Balance as at 1 January 2015	**981,347**
Charge for the period	381,422
Disposals	(10,735)
Balance as at 31 December 2015	**1,352,034**
Charge for the period	381,056
Disposals	-
Balance as at 31 December 2016	**1,733,090**
Carrying amount	
At 31 December 2016	**1,582,082**
At 31 December 2015	**1,739,384**

19. Other assets in domestic currency

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Numismatic coins	7,934,344	7,168,991
Prepayments	3,030,893	2,141,070
Other	2,526,234	3,283,395
Total other assets	**13,491,471**	**12,593,456**

20. Deposits and accounts of financial and other institutions

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	256,510,976	184,852,856
Current accounts and term deposit of Deposit Guarantee Fund	1,703,577	1,850,415
Current accounts of other legal entities	15,539	289,645
Total foreign currency liabilities	**258,230,092**	**186,992,916**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	329,168,722	324,424,899
Current accounts and term deposit of Deposit Guarantee Fund	274,930	117,737
Current accounts of other legal entities	15,688	271,271
Total domestic currency liabilities	**329,459,340**	**324,813,907**
Total deposits and accounts of financial and other institutions	**587,689,432**	**511,806,823**

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2016 two counterparty banks had balances individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions amounting to AMD 201,342,818 thousand (31 December 2015: two banks with total balance of AMD 166,323,130 thousand).

21. Other borrowed funds

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Due to the KfW	48,539,612	41,396,010
Due to the EIB	30,332,787	30,320,617
Due to the World Bank	22,642,785	23,270,697
Due to the ADB	5,004,020	3,496,469
Other	6,673,519	1,456,671
Total other borrowed funds	**113,192,723**	**99,940,464**

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2017 to 2048 (31 December 2015: from 2016 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2017 to 2035 (31 December 2015: from 2016 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions matures during the period from 2017 to 2044 (31 December 2015: from 2016 to 2044).

During the year ended 31 December 2015 the Group obtained loan from European Investment Bank for on-lending to smaller projects. The loan will target particularly the agro-processing and rural sectors (Note 12). The loan matures during the period from 2018 to 2030.

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2017 till 2025 (31 December 2015: from 2016 to 2025). As at 31 December 2016 the balance outstanding under this loan facility is AMD 6,673,519 thousand (31 December 2015: AMD 1,456,671 thousand).

22. Other liabilities in domestic currency

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Other liabilities in domestic currency		
Payables	2,062,488	1,866,393
Demand deposits of employees	829,066	676,635
Other liabilities	1,175,813	471,178
Total other liabilities in domestic currency	**4,067,367**	**3,014,206**

23. Due to the Government of the Republic of Armenia

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Foreign currency liabilities		
Current accounts of the Government	1,195,241	1,061,467
Payables	-	248,105
Total foreign currency liabilities	**1,195,241**	**1,309,572**
Domestic currency liabilities		
Term deposits	135,211,272	86,130,956
Current accounts of the Government	47,104,499	46,845,662
Loans from the Government	1,609,773	2,253,561
Total domestic currency liabilities	**183,925,544**	**135,230,179**
Total due to the Government of the Republic of Armenia	**185,120,785**	**136,539,751**

Term deposits of the Government have maturity of less than one year and interest rate is ranging from 5.98% to 7.25% (31 December 2015: from 10.1% to 11.2%).

Loans from the Government outstanding as at 31 December 2016 and 31 December 2015 represent loans obtained by one of the Group's subsidiaries from the Government under the Mortgage Loan Market Refinancing Project based on the general agreement signed on 13 June 2009. Loan's nominal interest rate is 7% per annum with maturity date till June 2019.

As at 31 December 2016, mortgage refinancing loans to banks and financial institutions with a gross value of AMD 1,466,583 thousand (31 December 2015: AMD 1,902,052 thousand) serve as collateral for loans from the Government.

24. Debt securities issued

At 31 December 2016 the subsidiary company of the Group had in issue one-year discount bonds at AMD 2,137,300 thousand par value, three-year coupon bonds at AMD 3,510,600 thousand par value (maturing up to November 2019), three-year coupon bonds at AMD 2,000,000 thousand par value (maturing up to October 2017), and the five-year coupon bonds at AMD 1,200,000 thousand par value (maturing up to June 2019) (31 December 2015: three-year coupon bonds at AMD 2,000,000 thousand par value and five-year coupon bonds at AMD 1,200,000 thousand par value).

The average annual yield on these bonds is from 9.8% to 11.82% (31 December 2015: from 9.8% to 11.82%). The carrying value of the issued bonds as at 31 December 2016 is AMD 8,788,038 thousand (31 December 2015: AMD 3,244,388 thousand). As at 31 December 2016 mortgage refinancing loans to banks and financial institutions in the amount of AMD 5,557,630 thousand (31 December 2015: AMD 2,384,993 thousand) and term deposits denominated in foreign currency in the amount of AMD 1,451,820 thousand (31 December 2015: AMD 1,452,060 thousand denominated in foreign currency and AMD 30,000 denominated in domestic currency) serve as collateral for debt securities issued.

25. Management of capital

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

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

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

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

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

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

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

Revaluation reserve for available-for-sale assets in the amount of AMD 1,083,657 thousand (positive effect) as at 31 December 2016 (31 December 2015: AMD 1,131,000 thousand (negative effect) represents difference between the fair value of the Group's financial assets classified as available-for-sale as at the reporting date and their fair value at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2016 related to the construction of the Group's premises and development of software are AMD 1,410,017 thousand (31 December 2015: AMD 231,336 thousand).

Litigation

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

Guarantees

As at 31 December 2016 the Group has guarantees in the amount of AMD 746,025 thousand (31 December 2015: AMD 745,732 thousand) issued from 1994 to 1995 on behalf of construction companies and related to earthquake zone construction. Guarantees represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk. During the period starting from the date of the issuance of the guarantees and till 31 December 2016 the Group has not made any payments and has not received any claims under these guarantees.

27. Related party transactions

Transactions with members of the key management

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

In thousands of Armenian Drams

	2016	2015
Key management including the Board members	303,057	273,310
Total	**303,057**	**273,310**

Total amount of loans issued to the members of the key management outstanding as at 31 December 2016 is AMD 117,833 thousand (31 December 2015: AMD 127,030 thousand). Total amount of loans issued to and repaid by the members of the key management during the year ended 31 December 2016 is AMD 15,180 thousand and AMD 24,377 thousand respectively (2015: AMD 6,624 thousand and AMD 24,928 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2016 is AMD 128,404 thousand (31 December 2015: AMD 71,636 thousand). Total amount of deposits placed and deposits redeemed by the members of the key management during the year ended 31 December 2016 is AMD 82,047 thousand and AMD 25,279 thousand respectively (2015: AMD 79,109 thousand and AMD 64,381 thousand). In accordance with the Bank's internal regulations loans cannot be provided to the Bank's employees who have deposits with the Bank.

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

In thousands of Armenian Drams

	2016	2015
Consolidated statement of comprehensive income		
Interest expense	(11,526)	(7,856)
Interest income	4,241	4,662

Transactions with the Government of the Republic of Armenia

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

In thousands of Armenian Drams

	31 December 2016		31 December 2015	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia at fair value through profit or loss (Note 13)	2,352,333	10.8%	1,665,748	12.1%
Securities of the Republic of Armenia classified as available-for-sale (Note 15)	21,204,072	11.0%	13,770,172	10.5%
	23,556,405		**15,435,920**	
Promissory note issued by the Government (Note 15)				
Balance at 1 January	81,275,373		106,175,637	
Additions	-		-	
Decrease as a result of profit distribution	(7,464,530)		(24,900,264)	
Balance at 31 December	**73,810,843**		**81,275,373**	
	97,367,248		**96,711,293**	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	183,925,544	5.2%	135,230,179	7.3%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,195,241	0.0%	1,309,572	0.0%
	185,120,785		**136,539,751**	

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

In thousands of Armenian Drams

	2016	2015
Balance at 1 January	**86,130,956**	**35,191,972**
Additions	726,599,595	701,219,056
Interest charge	4,781,824	9,599,967
Redemption (including interest payment)	(682,301,103)	(659,880,039)
Balance at 31 December	**135,211,272**	**86,130,956**

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

In thousands of Armenian Drams

	2016	2015
Balance at 1 January	**2,253,561**	**2,897,476**
Interest charge	98,948	117,325
Redemption (including interest payments)	(742,736)	(761,240)
Balance at 31 December	**1,609,773**	**2,253,561**

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

In thousands of Armenian Drams

	2016	2015
Consolidated statement of comprehensive income		
Interest income from Government securities	2,348,798	2,243,747
Interest expense	(5,431,734)	(10,008,453)
Net foreign exchange (loss)/gain	(33,546)	420,023
Net gain/(loss) on derivatives	547,349	(978,171)

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

Transactions with the Deposit Guarantee Fund

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

In thousands of Armenian Drams

	31 December 2016		31 December 2015	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Due to the Deposit Guarantee Fund (domestic currency, Note 20)	15,688	0.00%	117,737	8.75%
Due to the Deposit Guarantee Fund (foreign currency, Note 20)	1,703,577	0.00%	1,850,415	0.0%
Total	**1,719,265**		**1,968,152**	

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

In thousands of Armenian Drams

	2016	2015
Balance at 1 January	**1,968,152**	**2,024,635**
Additions	46,040,386	49,791,783
Interest charge	12,695	11,637
Redemption (including interest payment)	(46,301,968)	(49,859,903)
Balance at 31 December	**1,719,265**	**1,968,152**

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

In thousands of Armenian Drams

	2016	2015
Consolidated statement of comprehensive income		
Interest expense	12,695	11,637

28. Cash and cash equivalents

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

In thousands of Armenian Drams

	31 December 2016	31 December 2015
Cash	24,771,453	12,117,804
Nostro accounts (Note 12)	391,056,963	253,102,636
SDR holdings in the IMF (Note 16)	1,684,319	1,383,162
Total cash and cash equivalents	**417,512,735**	**266,603,602**

29. Fair value of financial instruments

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

(a) Recurring fair value measurements

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

In thousands of Armenian Drams

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
- Government bonds	277,429,426	-	-	277,429,426	262,028,255	-	-	262,028,255
- State agency bonds	139,649,298	-	-	139,649,298	123,407,007	-	-	123,407,007
- Other securities	174,562,803	-	-	174,562,803	127,327,090	-	-	127,327,090
- Securities of the Government of the Republic of Armenia	-	2,352,333	-	2,352,333	-	1,665,748	-	1,665,748
Derivative financial assets	**-**	**-**	**-**	**-**	**103,306**	**-**	**-**	**103,306**
Investment securities available for sale								
- Foreign securities	-	2,207,785	-	2,207,785	-	2,221,194	-	2,221,194
- Securities of the Government of the Republic of Armenia	-	21,204,072	-	21,204,072	-	13,770,172	-	13,770,172
- Promissory note issued by the Government	-	73,810,843	-	73,810,843	-	81,275,373	-	81,275,373
- Corporate bonds	-	-	6,111,734	6,111,734	-	-	5,629,794	5,629,794
Total assets with recurring fair value measurements	**591,641,527**	**99,575,033**	**6,111,734**	**697,328,294**	**512,865,658**	**98,932,487**	**5,629,794**	**617,427,939**

In thousands of Armenian Drams

	31 December 2016			31 December 2015	
	Level 1	Level 3	Total	Level 3	Total
Liabilities carried at fair value					
Financial liabilities					
Foreign currency contracts under trust management	51,773	-	51,773	-	-
Forward contract with the Government	-	28,177	28,177	30,727	30,727
Total liabilities with recurring fair value measurements	**51,773**	**28,177**	**79,950**	**30,727**	**30,727**

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

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
– Securities of the Government of the Republic of Armenia	2,352,333	Discounted cash flows ("DCF")	Government bonds yield curve
Investment securities available for sale			
– Foreign securities	2,207,785	DCF	EUR risk-free rate
– Securities the Government of the Republic of Armenia	21,204,072	DCF	Government bonds yield curve
– Promissory note issued by the Government	73,810,843	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**99,575,033**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
– Securities of the Government of the Republic of Armenia	1,665,748	DCF	Government bonds yield curve
Investment securities available for sale			
– Foreign securities	2,221,194	DCF	EUR risk-free rate
– Securities the Government of the Republic of Armenia	13,770,172	DCF	Government bonds yield curve
– Promissory note issued by the Government	81,275,373	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**98,932,487**		

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

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets carried at fair value						
Financial assets						
Investment securities available for sale						
- Corporate bonds	6,111,734	DCF	1) Government bonds yield curve	1) 9.75%	1) ± 370 b.p.	1) (45,398)/46,584
			2) Credit risk	2) 3%	2) ± 200 b.p.	2) 25,030/(30,801)
			3) Recovery rate	3) 50%	3) ± 20%	3)12,471/(18,545)
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities	28,177	DCF	1) AMD risk-free rate	1) 6.84%	1) ± 370 b.p.	1)(4,736)/4,918
			2) USD risk-free rate	2) 5.77%	2) + 60/-8 b.p.	2) 777/(104)
			3) EUR risk-free rate	3) 4.63%	3) + 12/-8 b.p.	3) 5/(3)
			4) USD/AMD spot rate at the year-end	4) 483.94	4) n/a	4) n/a
			5) EUR/AMD spot rate at the year-end	5) 512.20	5) n/a	5) n/a
			6) Expected net amount of external debt – USD	6) USD 3,252 thousand	6) ± 10%	6) (2.912)/2.912
			7) Expected net amount of external debt – EUR	7) EUR 100 thousand	7) ± 10%	7) 95/(95)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets carried at fair value						
Financial assets						
Investment securities available for sale						
- Corporate bonds	5,629,794	DCF	1) Government bonds yield curve	1) 14%	1) ± 150 b.p.	1) (89,041)/91,164
			2) Credit risk	2) 3%	2) ± 200 b.p.	2) (139,685)/122,035
			3) Recovery rate	3) 50%	3) ± 20%	3) 60,536/(89,041)
Liabilities carried at fair value						
Financial liabilities						
Derivative financial liabilities	30,727	DCF	1) AMD risk-free rate	1) 10.64%	1) ± 150 b.p.	1) 1,399/(1,419)
			2) USD risk-free rate	2) 5.43%	2) ± 75 b.p.	2) (723)/728
			3) EUR risk-free rate	3) 4.79%	3) ± 75 b.p.	3) (33)/33
			4) USD/AMD spot rate at the year-end	4) 483.75	4) n/a	4) n/a
			5) EUR/AMD spot rate at the year-end	5) 528.69	5) n/a	5) n/a
			6) Expected net amount of external debt – USD	6) USD 2,416 thousand	6) ± 10	6) 2.970/(2.970)
			7) Expected net amount of external debt – EUR	7) EUR 100 thousand	7) ± 10	7) 103/(103)

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

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

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

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

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

In thousands of Armenian Drams

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial assets								
Placements with banks and other financial institutions in foreign currency								
- Nostro accounts	-	391,056,963	-	391,056,963	-	253,102,636	-	253,102,636
- Term deposits	-	28,980,855	-	29,028,319	-	15,493,099	-	15,440,510
- Cash included in assets under trust management	-	2,914,810	-	2,914,810	-	1,952,562	-	1,952,562
Placements and investments with banks and other financial institutions in domestic currency								
- Repurchase agreements and other overnight facilities	-	45,707,770	-	45,707,770	-	122,365,066	-	122,365,066
- Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	-	106,004,276	-	105,894,951	-	85,653,331	-	85,351,415
- Mortgage refinancing	-	58,925,041	-	61,258,612	-	49,183,495	-	49,183,495
- Deposits and current accounts placed in commercial banks	-	50,163,151	-	50,364,096	-	42,431,842	-	42,527,391
- Investments classified as loans and receivables	-	-	9,881,947	13,791,080	-	-	3,610,240	6,448,154
- Subordinated loans	-	-	-	-	-	3,068,234	-	3,079,245
- Other loans	-	6,995,062	-	7,324,837	-	7,536,402	-	7,821,877
Investment securities held to maturity								
- Government bonds	-	-	-	-	16,232,891	-	-	16,232,827
- State agency bonds	11,654,715	-	-	11,655,737	29,834,116	-	-	29,810,650
- Other securities	19,776,585	-	-	19,775,544	17,695,047	-	-	17,690,236
Total	**31,431,300**	**690,747,928**	**9,881,947**	**738,772,719**	**63,762,054**	**580,786,667**	**3,610,240**	**651,006,064**

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

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

In thousands of Armenian Drams

	31 December 2016		31 December 2015	
	Level 2	Carrying value	Level 2	Carrying value
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
- Current accounts of the Government	1,195,241	1,195,241	1,061,467	1,061,467
- Payables	-	-	248,105	248,105
Domestic currency liabilities				
- Current accounts of the Government	47,104,499	47,104,499	46,845,662	46,845,662
- Term deposits	135,165,735	135,211,272	86,173,942	86,130,956
- Loans from the Government	1,609,773	1,609,773	2,253,561	2,253,561
- Debt securities issued	**8,980,647**	**8,788,038**	**3,054,691**	**3,244,388**
Total	**194,055,895**	**193,908,823**	**139,637,428**	**139,784,139**

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

30. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group to be able to perform its main functions and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

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

The Board

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

Institutional framework

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

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

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

Administration and control

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

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

Asset allocation and risk management

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

Credit risk

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

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

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

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

Derivative financial instruments

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

Maximum credit risk without collateral or other credit enhancement

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

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

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

Credit quality per class of financial assets

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

In thousands of Armenian Drams

	Credit rating	31 December 2016		31 December 2015	
		Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
- Nostro accounts	P-1	387,653,933	91.6	251,353,280	92.9
	P-2	2,536,092	0.6	969,674	0.4
	Unrated	829,258	0.2	379,357	0.1
	NP	37,680	0.0	400,325	0.2
- Term deposits	P-1	22,341,229	5.3	13,988,450	5.2
	Unrated	6,687,090	1.6	1,452,060	0.5
- Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	2,914,810	0.7	1,952,562	0.7
Total placements with banks and other financial institutions in foreign currency		**423,000,092**	**100.0**	**270,495,708**	**100.0**
Financial instruments at fair value through profit and loss					
- Government bonds	Aaa	239,537,627	40.4	3,207,670	0.6
	Aa1-Aa3	33,038,691	5.6	255,403,079	49.6
	A1	4,853,108	0.8	3,417,506	0.7
- State agency bonds and other securities	Aaa	107,076,919	18.0	45,814,452	8.9
	Aa1-Aa3	27,615,942	3.8	55,344,888	10.8
	A1-A3	4,956,437	0.8	22,247,667	4.3
- Other securities	Aaa	106,958,695	18.0	28,822,144	5.6
	Aa1-Aa3	67,604,108	12.2	90,992,039	17.7
	A1-A3	-	0.0	7,512,907	1.5
- Securities of the Government of the Republic of Armenia	Ba2	2,352,333	0.4	1,665,748	0.3
Total financial instruments at fair value through profit and loss		**593,993,860**	**100.0**	**514,428,100**	**100.0**
Available-for-sale assets, excluding equity investments					
- Securities of the Government of the Republic of Armenia	Ba2	21,204,072	21.0	13,770,172	13.7
- Promissory note issued by the Government	Ba2	73,810,843	73.0	81,275,373	80.7
- Corporate bonds	Unrated	6,111,734	6.0	5,629,794	5.6
Total available-for-sale assets, excluding equity investments		**101,126,649**	**100.0**	**100,675,339**	**100.0**
Held to maturity assets					
- Government securities	Aa1-Aa3	-	0.0	5,386,249	8.4
	A1-A2	-	0.0	10,846,578	17.0
- State agency bonds	Aaa	1,811,606	5.8	7,429,017	11.7
	Aa1-Aa2	9,844,131	31.3	7,209,037	11.3
	A1-A3	-	0.0	15,172,596	23.8
- Other securities	Aaa	17,005,568	54.1	11,524,205	18.1
	Aa1	2,769,976	8.8	6,166,031	9.7
Total held to maturity assets		**31,431,281**	**100.0**	**63,733,713**	**100.0**

As at 31 December 2016 current accounts and term deposits included in the unrated credit rating category amounting to AMD 459,005 thousand and AMD 6,687,090 thousand respectively (31 December 2015: AMD 372,798 and 1,452,060 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

Unrated corporate bonds in the amount of AMD 6,111,734 thousand (31 December 2015: 5,629,794 thousand) represent investments of one of the Group's subsidiaries into local investment and development funds.

In thousands of Armenian Drams

		31 December 2016		31 December 2015	
	Credit rating	Amount	% in financial assets	Amount	% in financial assets
Placements and investments with banks and other financial institutions in domestic currency					
- Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	Settled after the end of the reporting period	7,601,310	7.2	4,122,009	4.8
	Not due at the date of authorisation of the consolidated financial statements for issue	98,293,641	92.8	81,229,406	95.2
Total		**105,894,951**	**100.0**	**85,351,415**	**100.0**
- Mortgage refinancing	Settled after the end of the reporting period	1,429,870	2.3	2,108,231	4.3
	Not due at the date of authorisation of the consolidated financial statements for issue	59,828,742	97.7	47,075,264	95.7
Total		**61,258,612**	**100.0**	**49,183,495**	**100.0**
- Deposits and current accounts in commercial banks	Settled after the end of the reporting period	4,181,922	8.3	9,048,048	21.3
	Not due at the date of authorisation of the consolidated financial statements for issue	46,182,174	91.7	33,479,343	78.7
Total		**50,364,096**	**100.0**	**42,527,391**	**100.0**
- Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	45,707,770	100.0	122,365,066	100.0
Total		**45,707,770**	**100.0**	**122,365,066**	**100.0**
- Investments classified as loans and receivables	Settled after the end of the reporting period	389,951	2.8	148,154	2.3
	Not due at the date of authorisation of the consolidated financial statements for issue	13,401,129	97.2	6,300,000	97.7
Total		**13,791,080**	**100.0**	**6,448,154**	**100.0**
- Subordinated loans	Settled after the end of the reporting period	-	0.0	1,295,790	42.1
	Not due at the date of authorisation of the consolidated financial statements for issue	-	0.0	1,783,455	57.9
Total		**-**	**0.0**	**3,079,245**	**100.0**
- Other loans		7,324,837	100.0	7,821,877	100.0
Total		**7,324,837**	**100.0**	**7,821,877**	**100.0**
Total placements and investments with banks and other financial institutions in domestic currency		**284,341,346**	**-**	**316,776,643**	**-**

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

Impairment assessment

The main considerations for the financial assets impairment assessment include whether any payments of principal or interest are overdue more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Offsetting financial assets and financial liabilities

As at 31 December 2016 the Group had reverse repurchase contracts with commercial banks (31 December 2015: with commercial banks) which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions. The trust manager may set off the Group's liabilities with the margin deposit in case of default.

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

In thousands of Armenian Drams

31 December 2016	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position	Net amount
				Financial instruments	
Financial assets					
Repurchase agreements and other overnight facilities	45,707,770	-	45,707,770	45,707,770	-
Total	**45,707,770**	**-**	**45,707,770**	**45,707,770**	**-**

In thousands of Armenian Drams

31 December 2015	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position	Net amount
				Financial instruments	
Financial assets					
Repurchase agreements and other overnight facilities	122,365,066	-	122,365,066	122,365,066	-
Total	**122,365,066**	**-**	**122,365,066**	**122,365,066**	**-**

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

In thousands of Armenian Drams

	31 December 2016				31 December 2015			
	Armenia	OECD	CIS and other foreign banks	Total	Armenia	OECD	CIS and other foreign banks	Total
Assets								
Cash	24,771,453	-	-	24,771,453	12,117,804	-	-	12,117,804
Placements with banks and other financial institutions in foreign currency	7,146,095	415,433,695	420,302	423,000,092	1,824,858	268,228,226	442,624	270,495,708
Placements and investments with banks and other financial institutions in domestic currency	284,341,346	-	-	284,341,346	316,776,643	-	-	316,776,643
Financial instruments at fair value through profit or loss	2,352,333	591,641,527	-	593,993,860	1,665,748	512,762,352	-	514,428,100
Derivative financial assets	-	-	-	-	-	103,306	-	103,306
Available-for-sale assets	101,788,443	2,209,431	-	103,997,874	101,286,020	2,222,840	-	103,508,860
Held-to-maturity assets	-	31,431,281	-	31,431,281	-	63,733,713	-	63,733,713
Placements with the IMF	-	85,480,295	-	85,480,295	-	63,055,674	-	63,055,674
Property and equipment and intangible assets	77,089,263	-	-	77,089,263	78,621,958	-	-	78,621,958
Other assets	13,492,197	1,530,962	80,808	15,103,967	12,594,907	97,231	-	12,692,138
Total assets	**510,981,130**	**1,127,727,191**	**501,110**	**1,639,209,431**	**524,887,938**	**910,203,342**	**442,624**	**1,435,533,904**
Liabilities								
Notes and coins in circulation	455,401,582	-	-	455,401,582	413,613,757	-	-	413,613,757
Deposits and accounts of financial and other institutions	587,465,855	13,072	210,505	587,689,432	511,557,358	10,116	239,349	511,806,823
Derivative financial liabilities	28,177	51,773	-	79,950	30,727	-	-	30,727
Due to the Government	185,120,785	-	-	185,120,785	136,539,751	-	-	136,539,751
Due to the IMF	-	279,123,932	-	279,123,932	-	252,939,131	-	252,939,131
Other borrowed funds	-	108,188,703	5,004,020	113,192,723	-	96,443,995	3,496,469	99,940,464
Debt securities issued	8,788,038	-	-	8,788,038	3,244,388	-	-	3,244,388
Other liabilities	4,212,549	222,670	-	4,435,219	3,168,021	236,945	2,701	3,407,667
Total liabilities	**1,241,016,986**	**387,600,150**	**5,214,525**	**1,633,831,661**	**1,068,154,002**	**349,630,187**	**3,738,519**	**1,421,522,708**
Net assets	**(730,035,856)**	**740,127,041**	**(4,713,415)**	**5,377,770**	**(543,266,064)**	**560,573,155**	**(3,295,895)**	**14,011,196**

Liquidity risk and funding management

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

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

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

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2016 and 31 December 2015 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

In thousands of Armenian Drams

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

	31 December 2015						
	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	413,613,757	-	-	-	-	-	413,613,757
Deposits and accounts of financial and other institutions	511,807,135	-	-	-	-	-	511,807,135
Derivative financial liabilities	30,727	-	-	-	-	-	30,727
Due to the Government	53,464,719	51,939,121	31,308,835	1,773,122	-	-	138,485,797
Due to the IMF	-	290,480	11,785,539	77,758,565	47,518,545	120,655,398	258,008,527
Other borrowed funds	399,207	-	5,963,948	33,546,794	73,919,379	-	113,829,328
Debt securities issued	-	-	344,000	3,754,389	-	-	4,098,389
Total non-discounted financial liabilities	**979,315,545**	**52,229,601**	**49,402,322**	**116,832,870**	**121,437,924**	**120,655,398**	**1,439,873,660**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

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

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

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

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate available-for-sale assets at 31 December 2016 and 31 December 2015 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

Currency	2016		2015	
	Change in yield curve, b.p.	Effect on equity	Change in yield curve, b.p	Effect on equity
AMD	+370	(2,831,725)	+150	(557,815)
AMD	-370	3,901,482	-150	611,395

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2016 and 31 December 2015, based on the assumption of changing interest rates. Amounts included in the table below are presented in the original currency.

Currency	2016		2015	
	Change in basis points	Increase/ (decrease) of net result on financial instruments at FVTPL and equity	Change in basis points	Increase/ (decrease) of net result on financial instruments at FVTPL and equity
USD	+/-50	(2,138,813)/2,138,813	+/-25	(975,175)/975,175
EUR	+/-25	(812,525)/812,525	+/-25	(773,723)/773,723
AMD	+/-370	(74,678)/80,226	+/-150	(21,377)/21,981

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2016 and 31 December 2015.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2016 and 31 December 2015 based on the assumption of changing interest rates on borrowings obtained by the Group:

Currency	2016		2015	
	Change in basis points	Increase/ (decrease) of net interest expense and decrease/ (increase) of equity	Change in basis points	Increase/ (decrease) of net interest expense and decrease/ (increase) of equity
USD	+/- 50	115,494/(115,494)	+/- 20	46,799/(46,799)
SDR	+/- 20	217,417/(217,417)	+/- 10	104,282/(104,282)

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

Currency risk

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

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

Currency	2016		2015	
	Increase in currency rate in %	Increase/ (decrease) of profit and equity	Increase in currency rate in %	Increase/ (decrease) of profit and equity
USD	6.00%	32,539,996	16.83%	69,391,445
EUR	11.00%	11,414,925	20.84%	17,805,986
GBP	12.00%	4,190,279	21.10%	9,386,843
JPY	13.00%	3,139,391	0.16%	56,262
RUB	21.00%	26,420	1.22%	1,493
SDR	8.25%	(16,388,432)	39.24%	(75,886,027)

Currency	2016		2015	
	Increase in currency rate in %	Increase/ (decrease) of profit and equity	Increase in currency rate in %	Increase/ (decrease) of profit and equity
USD	-6.00%	(32,539,996)	-16.83%	(69,391,445)
EUR	-11.00%	(11,414,925)	-20.84%	(17,805,986)
GBP	-17%	(5,936,229)	-21.10%	(9,386,843)
JPY	-13%	(3,139,391)	-0.16%	(56,262)
RUB	-17.50%	(22,016)	-1.22%	(1,493)
SDR	-8.25%	16,388,432	-39.24%	75,886,027

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

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

Operating risk – control over subsidiaries

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

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

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

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

31. Maturity analysis

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

In thousands of Armenian Drams

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

հազար ՀՀ դրամ

	31 դեկտեմբերի 2015 թ.		
	Ընթացիկ	Ոչ ընթացիկ	Ընդամենը
Assets			
Cash	12,117,804	-	12,117,804
Placements with banks and other financial institutions in foreign currency	269,043,647	1,452,061	270,495,708
Financial instruments as fair value through profit or loss	514,428,100	-	514,428,100
Derivative financial assets	103,306	-	103,306
Placements and investments with banks and other financial institutions in domestic currency	188,842,395	127,934,248	316,776,643
Available-for-sale assets	83,539,824	19,969,036	103,508,860
Held-to-maturity assets	52,948,339	10,785,374	63,733,713
Placements with the IMF	1,383,474	61,672,200	63,055,674
Property and equipment	-	76,882,574	76,882,574
Intangible assets	-	1,739,384	1,739,384
Other assets	11,944,342	747,796	12,692,138
Total assets	**1,134,351,231**	**301,182,673**	**1,435,533,904**
Liabilities			
Notes and coins in circulation	413,613,757	-	413,613,757
Deposits and accounts of other financial institutions	511,806,823	-	511,806,823
Derivative financial liabilities	30,727	-	30,727
Due to the Government	134,935,032	1,604,719	136,539,751
Due to the IMF	11,153,380	241,785,751	252,939,131
Other borrowed funds	4,913,593	95,026,871	99,940,464
Debt securities issued	44,389	3,199,999	3,244,388
Other liabilities	3,375,479	32,188	3,407,667
Total liabilities	**1,079,873,180**	**341,649,528**	**1,421,522,708**
Net position as at 31 December 2015	**54,478,051**	**(40,466,855)**	**14,011,196**

