Financial Statements and Independent Auditor's Report

"ARMSWISSBANK" CLOSED JOINT STOCK COMPANY

31 December 2015

Contents

Independent auditor's report

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

Հ. + 374 10 260 964
Ֆ.+ 374 10 260 961

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

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

www.grantthornton.am

To the Shareholders and Board of Directors of "ARMSWISSBANK" CLOSED JOINT STOCK COMPANY:

We have audited the accompanying financial statements of "ARMSWISSBANK" CLOSED JOINT STOCK COMPANY (the "Bank"), which comprise the statement of financial position as of December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of "ARMSWISSBANK" CLOSED JOINT STOCK COMPANY as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to note 36 to the financial statements. Financial statements of the Bank have been prepared based on the Bank's going concern principle. In 2014 the Board of RA Central Bank decided to determine the minimum size of total capital AMD 30,000,000 thousand as of January 1, 2017 and after that period. The ability of the Bank to act as a going concern generally depends on the Bank's shareholders' intentions concerning the fulfilment of the Bank's total capital as of 01 January, 2017 and the measures taken towards it. Our opinion is not qualified due to this matter.

Gagik Gyulbudaghyan
Managing Partner

Vahagn Payan
Audit Manager

Grant Thornton CJSC
25 February, 2016
Yerevan

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Interest and similar income	6	**8,564,225**	8,042,602
Interest and similar expense	6	**(4,925,395)**	(3,801,150)
Net interest income		**3,638,830**	4,241,452
Fee and commission income	7	**136,460**	134,286
Fee and commission expense	7	**(54,729)**	(39,962)
Net fee and commission income		**81,731**	94,324
Net trading income	8	**243,138**	(151,522)
Gains less losses on investments available for sale		**122,759**	644,708
Other income	9	**124,521**	330,255
Impairment charge	16	**(708,671)**	(1,449,240)
Staff costs	10	**(785,140)**	(601,753)
Depreciation of property and equipment	18	**(57,377)**	(46,683)
Amortization of intangible assets	19	**(8,435)**	(9,351)
Other expenses	11	**(394,585)**	(303,602)
Profit before income tax		**2,256,771**	2,748,588
Income tax expense	12	**(393,458)**	(619,773)
Profit for the year		**1,863,313**	2,128,815
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net unrealized loss from changes in fair value from available-for-sale financial assets		**(1,517,057)**	(6,916,221)
Net gain realized to net profit or loss on disposal of available-for-sale instruments		**(173,551)**	(33,064)
Income tax relating to items that will be reclassified		**338,125**	1,389,857
Other comprehensive income for the year, net of tax		**(1,352,483)**	(5,559,428)
Total comprehensive income for the year		**510,830**	(3,430,613)

The accompanying notes on pages 7 to 54 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Cash and cash equivalents	13	**13,709,860**	14,639,454
Amounts due from other financial institutions	14	**1,908,220**	723,252
Derivative financial assets	15	**3,136**	9,902
Loans and advances to customers	16	**37,460,152**	37,262,041
Investments available for sale	17	**19,879,216**	5,330,003
Securities pledged under repurchase agreements	28	**10,060,292**	24,568,809
Property, plant and equipment	18	**743,939**	734,867
Intangible assets	19	**30,978**	29,709
Repossessed assets	20	**537,501**	406,500
Prepayments on income tax		**63,484**	-
Deferred tax asset	12	**646,838**	307,171
Other assets	21	**217,644**	290,902
TOTAL ASSETS		**85,261,260**	84,302,610
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to CBA	22	**11,068,370**	24,292,300
Derivative financial liabilities	15	**-**	113,715
Amounts due to other financial institutions	23	**10,155,940**	7,077,929
Amounts due to customers	24	**38,283,282**	34,640,566
Debt securities issued	25	**4,914,476**	-
Subordinate debt	26	**2,419,545**	-
Current income tax liabilities		**-**	251,221
Deferred tax liability	27	**177,561**	195,623
Other liabilities		**67,019,174**	66,571,354
Total liabilities			
Equity			
Share capital	29	**8,752,800**	8,752,800
Share premium		**1,347,241**	1,347,241
Statutory general reserve		**2,500,000**	2,500,000
Other reserves		**(2,588,538)**	(1,236,055)
Retained earnings		**8,230,583**	6,367,270
Total equity		**18,242,086**	17,731,256
TOTAL LIABILITIES AND EQUITY		**85,261,260**	84,302,610

The financial statements from pages 3 to 54 were signed by the Bank's Executive Director and Chief Accountant on 25 February 2016.

Gevorg MACHANYAN
Executive Director

Sedrak BAGHDASARYAN
Chief accountant

The accompanying notes on pages 7 to 54 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 01, 2014	8,752,800	1,347,241	2,000,000	4,323,373	4,738,455	21,161,869
Distribution to reserve	-	-	500,000	-	(500,000)	-
Transactions with owners	-	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	-	2,128,815	2,128,815
Other comprehensive income:						
Net unrealized loss from changes in fair value	-	-	-	(6,916,221)	-	(6,916,221)
Net gain realized to net profit or loss on disposal of available-for-sale instruments	-	-	-	(33,064)	-	(33,064)
Income tax relating to components of other comprehensive income	-	-	-	1,389,857	-	1,389,857
Total comprehensive income for the year	-	-	-	(5,559,428)	2,128,815	(3,430,613)
Balance as of December 31, 2014	**8,752,800**	**1,347,241**	**2,500,000**	**(1,236,055)**	**6,367,270**	**17,731,256**
Profit for the year	**-**	**-**	**-**	**-**	**1,863,313**	**1,863,313**
Other comprehensive income:						
Net unrealized loss from changes in fair value	**-**	**-**	**-**	**(1,517,057)**	**-**	**(1,517,057)**
Net gain realized to net profit or loss on disposal of available-for-sale instruments	**-**	**-**	**-**	**(173,551)**	**-**	**(173,551)**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**338,125**	**-**	**338,125**
Total comprehensive income for the year	**-**	**-**	**-**	**(1,352,483)**	**1,863,313**	**510,830**
Balance as of December 31, 2015	**8,752,800**	**1,347,241**	**2,500,000**	**(2,588,538)**	**8,230,583**	**18,242,086**

The accompanying notes on pages 7 to 54 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2015**	Year ended December 31, 2014
Cash flows from operating activities		
Profit before tax	**2,256,771**	2,748,588
Adjustments for		
Impairment charge for credit losses	**708,671**	1,449,240
Amortization and depreciation allowances	**65,812**	56,034
(Gain)/loss from sale of PPE	**(1,239)**	89
Interests receivable	**(112,767)**	-
Interests payable	**96,832**	11,873
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	**89,370**	(240,886)
Net (gain)/loss from changes in fair value of trading instruments	**(106,949)**	105,614
Cash flows from operating activities before changes in operating assets and liabilities	**2,996,501**	4,130,552
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**(1,082,327)**	317,934
Loans and advances to customers	**(675,401)**	(6,392,236)
Other assets	**70,617**	(236,319)
Increase/(decrease) in operating liabilities		
Repurchase agreements with the CBA	**(14,115,725)**	8,449,666
Amounts due to financial institutions	**624,287**	(2,045,965)
Amounts due to customers	**3,376,459**	6,593,355
Other liabilities	**(12,077)**	(164,588)
Net cash flow from / (used in) operating activities before income tax	**(8,817,666)**	10,652,399
Income tax paid	**(709,705)**	(518,013)
Net cash from / (used in) operating activities	**(9,527,371)**	10,134,386
Cash flows from investing activities		
Purchase of investment securities	**(1,731,304)**	(5,809,530)
Purchase of property, plant and equipment	**(66,954)**	(24,749)
Purchase of intangible assets	**(9,704)**	(5,049)
Net cash used in investing activities	**(1,807,962)**	(5,839,328)
Cash flow from financing activities		
Loans received from/(redeemed to) the CBA	**902,185**	(1,780,508)
Loans received from other financial institutions	**2,377,536**	2,081,260
Other long term loans redeemed	**(66,496)**	(294,477)
Issue of debt securities	**4,808,666**	-
Subordinate debt received	**2,424,039**	-
Net cash from financing activities	**10,445,930**	6,275
Net increase/(decrease) in cash and cash equivalents	**(889,403)**	4,301,333
Cash and cash equivalents at the beginning of the year	**14,639,454**	8,920,558
Exchange differences on cash and cash equivalents	**(40,191)**	1,417,563
Cash and cash equivalents at the end of the year (Note 13)	**13,709,860**	14,639,454

Supplementary information:		
Interest received	**8,451,458**	8,042,602
Interest paid	**(5,022,227)**	(3,801,150)

The accompanying notes on pages 7 to 54 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

ARMSWISSBANK CLOSED JOINT STOCK COMPANY (the "Bank"), incorporated in the Republic of Armenia (RA) in 2004, is a closed joint stock company regulated by the legislation of RA. The Bank conducts its business under license number 84, granted on 07 October 2004 by the Central Bank of Armenia (the "CBA").

The Bank is a member of RA state system of individuals deposit guarantee and RA Union of Banks.

The Bank's main activities include provision of corporate, investment and private banking services – investments in financial instruments, accepting deposits from physical and legal entities, provision of other service in the field of finance and banking (lending and factoring).

The head office of the Bank is located in Yerevan. The registered office of the Bank is located at: 10 V. Sargsyan str., Yerevan, 0010, RA.

2 Armenian business environment

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

New standards and interpretations adopted for the first time for the periods beginning on or after January 1, 2015 are not applicable for the Bank. None of the amendments of the standards applicable from that period had a material impact on the financial statements of the Bank.

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 Revenue, IAS 11 Construction Contracts, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. The Bank's management have not yet assessed the impact of IFRS 15 on these financial statements.

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income and expenses

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

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

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

4.2 Foreign currency translation

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

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

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

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

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

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

4.3 Taxation

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

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

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

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

Changes in the bid prices are recorded in net gain on operations with precious metals in "Other income".

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

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

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

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

The Bank classified its financial assets into the following categories:

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.8 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Allocated amounts of securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.11 Leases

Finance – Bank as lessor

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

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating - Bank as lessee

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

4.12 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	4	25
Vehicles	5	20
Office inventory	5	20
Other fixed assets	2-5	33.33-20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

4.13 Intangible assets

Intangible assets include computer software.

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

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

4.14 Repossessed assets

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

4.15 Borrowings

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

4.16 Financial guarantees

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

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

4.17 Provisions

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

4.18 Equity

Share capital

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

Share premium

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

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

Revaluation reserve for available-for-sale securities

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

4.19 Offsetting

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

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

4.20 Segment reporting

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair value

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 32).

Classification of investment securities

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

Useful life of PPE

The estimate of useful life of PPE is a result of judgement based on experience with similar assets. Future economic benefits are incorporated in assets and mainly amortized in parallel with its usage. However, factors, such as operating, technical and trading depreciation often result in reduction of economic benefits from the asset. The Management estimates the remaining useful life in compliance with the current technical condition of the asset and based on the estimated period, through which the Bank foresees to receive benefits. For the estimation of remaining useful life the following main factors are considered: foreseeable usage of the asset, the depreciation depending on operating factors and maintenance program and technical and trading depreciation arising from changes in market conditions.

Derivatives

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

Non-current Assets Held for Sale and Discontinued Operations

According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. For of the valuation of those assets, The Bank has used the services of an independent valuer.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis(Refer to note 31).

Impairment of loans and receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 30.

Impairment of available-for-sale equity investments

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

6 Interest and similar income and expense

In thousand Armenian drams	**2015**	2014
Loans and advances to customers	**4,298,279**	3,916,146
Debt investment securities available-for-sale	**3,709,998**	3,626,534
Income from factoring	**193,980**	209,182
Amounts due from financial institutions	**138,341**	131,456
Reverse repurchase transactions	**25,786**	102,007
Interest accrued on individually impaired financial assets	**147,658**	55,572
Derivative instruments	**48,793**	-
Other interest income	**1,390**	1,705
Total interest and similar income	**8,564,225**	8,042,602

In thousand Armenian drams	**2015**	2014
Amounts due to customers	**2,140,125**	1,837,859
Repurchase transactions	**1,944,411**	1,442,582
Amounts due to financial institutions	**569,265**	520,709
Bonds issued	**271,594**	-
Total interest and similar expense	**4,925,395**	3,801,150

7 Fee and commission income and expense

In thousand Armenian drams	2015	2014
Cash collection	**89,514**	69,384
Wire transfer fees	**18,115**	50,909
Guarantees and letters of credit	**6,644**	4,749
Brokerage operations	**-**	4,500
Other fees and commissions	**22,187**	4,744
Total fee and commission income	**136,460**	134,286

In thousand Armenian drams	2015	2014
Wire transfer fees	**39,373**	30,792
Received guarantees	**4,707**	4,397
Commodity exchange payments	**826**	953
Other expenses	**9,823**	3,820
Total fee and commission expense	**54,729**	39,962

8 Net trading income

In thousand Armenian drams	2015	2014
Gain/(loss) from derivatives	**127,155**	(113,646)
Gain/(loss) from transactions in foreign currencies	**115,983**	(37,876)
Total net trading income	**243,138**	(151,522)

9 Other income

In thousand Armenian drams	2015	2014
Gains from operations with precious metals	**61,792**	59,698
Income from sale of PPE	**1,239**	3,288
Fines and penalties received	**20,023**	14,156
Income from dividends	**2,714**	276
Net gains from foreign currency translation of non-trading assets and liabilities	**-**	240,886
Other income	**38,753**	11,951
Total other income	**124,521**	330,255

10 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	**783,699**	598,924
Staff training costs	**1,441**	2,829
Total staff costs	**785,140**	601,753

11 Other expenses

In thousand Armenian drams	2015	2014
Net loss from foreign currency translation of non-trading assets	**89,370**	-
Communications	**77,307**	68,299
Repair and maintenance of PPE	**42,755**	44,860
Representative expenses	**26,573**	26,398
Consulting and other services	**23,092**	22,169
Taxes, other than income tax, duties	**21,377**	18,659
Payments to Deposit Guarantee Fund	**19,192**	15,902
Operating lease expenses	**17,280**	17,280
Insurance expenses	**16,841**	16,057
Business trip expenses	**9,406**	16,045
Security	**8,027**	7,970
Fees to financial system mediator	**8,435**	6,973
Office supplies	**7,992**	10,213
Acra expenses	**5,516**	4,496
Advertising costs	**3,004**	14,140
Incasation expenses	**2,707**	2,947
Penalties paid	**-**	201
Other expenses	**15,711**	10,993
Total other expense	**394,585**	**303,602**

12 Income tax expense

In thousand Armenian drams	2015	2014
Current tax expense	**430,000**	610,000
Deferred tax	**(1,542)**	22,290
Adjustments of current income tax of previous years	**(35,000)**	(12,517)
Total income tax expense	**393,458**	619,773

The corporate income tax within the Republic of Armenia is levied at the rate of 20% in 2015 (2014: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2015	Effective rate (%)	2014	Effective rate (%)
Profit before tax	**2,256,771**		2,748,588	
Income tax at the rate of 20%	**451,354**	**20.0**	549,718	20.0
Non-taxable income	**-**	**-**	(55)	-
Other taxable income	**-**	**-**	4,142	0.2
Non-deductible expenses	**39,163**	**1.7**	40,603	1.5
Foreign exchange (gains)/losses	**(57,150)**	**(2.5)**	42,695	1.5
Other deductible expenses	**(4,909)**	**(0.2)**	(4,813)	(0.2)
Adjustments relating to prior years income tax	**(35,000)**	**(1.6)**	(12,517)	(0.5)
Income tax expense	**393,458**	**17.4**	619,773	22.5

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**2014**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**2015**
Other liabilities	**10,179**	**3,368**	**-**	**13,547**
Fines receivable from impaired assets	**3,186**	**4,488**	**-**	**7,674**
Investment securities available for sale	**309,014**	**-**	**338,125**	**647,139**
Total deferred tax assets	**322,379**	**7,856**	**338,125**	**668,360**
Cash and cash equivalents	**(5,004)**	**(1,468)**	**-**	**(6,472)**
Amounts due from other financial institutions	**(479)**	**(985)**	**-**	**(1,464)**
Other assets	**(1,486)**	**(1,512)**	**-**	**(2,998)**
Other provisions	**(8,239)**	**(2,349)**	**-**	**(10,588)**
Total deferred tax liability	**(15,208)**	**(6,314)**	**-**	**(21,522)**
Net deferred tax asset	**307,171**	**1,542**	**338,125**	**646,838**

In thousand Armenian drams	2013	Recognized in profit or loss	Recognized in other comprehensive income	2014
Other liabilities	23,654	(13,475)	-	10,179
Fines receivable from impaired assets	18,872	(15,686)	-	3,186
Investment securities available for sale	-	-	309,014	309,014
Total deferred tax assets	42,526	(29,161)	309,014	322,379
Cash and cash equivalents	(3,045)	(1,959)	-	(5,004)
Amounts due from financial institutions	(1,277)	798	-	(479)
Derivatives	(327)	327	-	-
Loans and advances to customers	(8,383)	8,383	-	-
Investments in securities available for sale	(1,080,843)	-	1,080,843	-
Other assets	(3,676)	2,190	-	(1,486)
Other provisions	(5,371)	(2,868)	-	(8,239)
Total deferred tax liability	(1,102,922)	6,871	1,080,843	(15,208)
Net deferred tax asset/(liability)	(1,060,396)	(22,290)	1,389,857	307,171

13 Cash and cash equivalents

In thousand Armenian drams	**2015**	2014
Cash on hand	**1,791,055**	1,137,520
Correspondent account with the CBA	**9,680,447**	11,326,491
Correspondent accounts with other banks	**2,238,358**	2,175,443
Total cash and cash equivalents	**13,709,860**	14,639,454

As of 31 December 2015 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 20% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 7,067,109 thousand (2014: 2% and 20% respectively amounting to AMD 7,570,231 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 December 2015 the amounts of correspondent accounts with other banks in amounts of AMD 2,038,462 thousand (91% were due from two commercial banks) (2014: AMD 1,334,172 thousand (61%) due from two commercial banks).

Non-cash transactions performed by the Bank during 2015 are represented by repayment of AMD 192,561 thousand loan by obtaining ownership on repossessed collateral (2014: AMD 16,654 thousand).

14 Amounts due from other financial institutions

In thousand Armenian drams	2015	2014
Loans	**1,565,186**	239,266
Deposits in banks	**147,880**	326,665
Deposited funds in other financial institutions	**194,949**	157,138
Other amounts	**205**	183
Total amounts due from other financial institutions	**1,908,220**	723,252

Deposited funds represent guarantee amounts extended by the Bank for carrying out trade operations in international markets.

15 Derivative financial instruments

In thousand Armenian drams	2015			2014		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – foreign currency	**620,283**	**3,136**	**-**	1,164,311	9,902	113,715
Total derivative financial instruments and other trading liabilities	**620,283**	**3,136**	**-**	1,164,311	9,902	113,715

16 Loans and advances to customers

In thousand Armenian drams	2015	2014
Loans to customers	**28,450,196**	26,161,023
Overdrafts	**8,899,619**	10,352,421
Factoring	**929,545**	1,156,971
Reverse repurchase agreements	**250,556**	245,219
Other	**94,600**	77,526
	38,624,516	37,993,160
Less allowance for loans and advances impairment	**(1,164,364)**	(731,119)
Total loans and advances to customers	**37,460,152**	37,262,041

As of 31 December 2015 accrued interest income included in loans and advances to customers amounts to AMD 395,936 thousand (2014: AMD 288,115 thousand).

As of 31 December 2015 the weighted average effective interest rate on loans and advances to customers is 14.6% for loans in AMD (2014: 15%) and 12.7% for loans in USD, EUR and other freely convertible currencies (2014: 12%).

During the year ended 31 December 2015 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2015 the carrying amount of such assets was AMD 537,501 thousand (2014: AMD 406,500 thousand) (See Note 20). The Bank intends to sell these assets in a short period.

As of December 31, 2015 the Bank had a concentration of loans represented by AMD 19,935,231 thousand due from the ten largest third party entities and parties related with them (51.6% of gross loan portfolio) (2014: AMD 18,149,356 thousand or 47.8%). An allowance of AMD 355,675 thousand (2014: AMD 358,829 thousand) was made against these loans.

Reconciliation of loans and advances by economic sectors is as follows:

In thousand Armenian drams	**2015**	2014
Industry	**13,146,288**	13,801,940
Trade	**3,408,292**	5,233,584
Agriculture	**5,353,012**	4,825,978
Mortgage loans	**4,471,327**	3,577,953
Public food and other service sectors	**15,608**	2,390,825
Consumer	**1,398,006**	1,477,073
Construction	**1,197,319**	980,543
Transport and communications	**94,905**	84,771
Other	**9,539,759**	5,620,493
	38,624,516	37,993,160
Less allowance for loan impairment	**(1,164,364)**	(731,119)
Total loans and advances to customers	**37,460,152**	37,262,041

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

								2015
In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trade	Con-sumer	Mortgage	Other	Total
At 1 January 2015	**147,398**	**64,982**	**9,805**	**86,729**	**72,300**	**35,780**	**314,125**	**731,119**
Charge for the year	**269,506**	**8,861**	**28,543**	**87,893**	**2,031**	**12,845**	**298,992**	**708,671**
Amounts written off	**(170,499)**	**(44,318)**	**(22,414)**	**(99,209)**	**(13,910)**	**(37,526)**	**(41,957)**	**(429,833)**
Recovery	**5,995**	**42,848**	**-**	**52,432**	**17,799**	**33,614**	**1,719**	**154,407**
At 31 December 2015	**252,400**	**72,373**	**15,934**	**127,845**	**78,220**	**44,713**	**572,879**	**1,164,364**
Collective impairment	**252,400**	**72,373**	**15,934**	**40,146**	**66,151**	**44,713**	**182,947**	**674,664**
Individual impairment	**-**	**-**	**-**	**87,699**	**12,069**	**-**	**389,932**	**489,700**
	252,400	**72,373**	**15,934**	**127,845**	**78,220**	**44,713**	**572,879**	**1,164,364**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**-**	**-**	**-**	**607,001**	**12,069**	**-**	**844,608**	**1,463,678**

In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trading	Con-sumer	Mortgage	Other	2014 Total
At 1 January 2014	454,843	68,653	32,074	52,725	35,346	29,914	140,095	813,650
Charge/(Reversal) for the year	887,757	(23,041)	(22,269)	105,030	393,050	35,160	73,553	1,449,240
Amounts written off	(1,216,898)	(46,686)	-	(196,426)	(374,987)	(29,294)	(37,541)	(1,901,832)
Recovery	21,696	66,056	-	125,400	18,891	-	138,018	370,061
At 31 December 2014	147,398	64,982	9,805	86,729	72,300	35,780	314,125	731,119
Collective impairment	147,398	64,982	9,805	86,729	69,854	35,780	279,136	693,684
Individual impairment	-	-	-	-	2,446	-	34,989	37,435
	147,398	64,982	9,805	86,729	72,300	35,780	314,125	731,119
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	-	-	-	30,449	-	383,646	414,095

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

In thousand Armenian drams	**2015**	2014
Privately held companies	**28,161,361**	28,912,619
Individuals	**5,859,280**	5,270,742
State owned enterprises	**4,410,023**	3,657,388
Sole proprietors	**193,852**	152,411
	38,624,516	37,993,160
Less allowance for loans and advances impairment	**(1,164,364)**	(731,119)
Total loans and advances to customers	**37,460,152**	37,262,041

Loans to individuals comprise the following products:

In thousand Armenian drams	**2015**	2014
Trade	**4,461,261**	3,548,452
Consumer loans	**1,110,705**	1,397,914
Car loans	**36,746**	79,159
Other	**250,568**	245,217
Total loans and advances to individuals (gross)	**5,859,280**	5,270,742

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December are presented as follows:

In thousand Armenian drams		**2015**		2014
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
RA Government securities	**252,078**	**250,556**	203,079	245,219
Total assets pledged and loans under reverse repurchase agreements	**252,078**	**250,556**	203,079	245,219

At 31 December 2015 and 2014 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 32.

Maturity analysis of loans and advances to customers is disclosed in Note 34.

Other risks interest to loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

17 Investments available for sale

In thousand Armenian drams	**2015**	2014
Unquoted investments		
Shares of Armenian companies	**51,615**	298,633
RA Government securities	**18,978,617**	4,205,134
Corporate bonds of RA	**848,984**	826,236
Total investments	**19,879,216**	5,330,003

All debt securities have fixed coupons.

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

All unquoted RA available-for-sale equity securities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold it for the long term.

Available for sale securities, including pledged securities by effective interest rates and maturity date comprise:

In thousand Armenian drams	**2015**		2014	
	%	**Maturity**	%	Maturity
Securities issued by the Ministry of Finance of Armenia	**8.14-16.9**	**2017-2032**	9.19-14.36	2016-2032
Corporate bonds	**7.5-11.7**	**2017-2030**	8.71-13.46	2015-2019

Debt securities available for sale at fair value of AMD 10,060,292 thousand (2014: AMD 24,568,809 thousand) are pledged to third parties for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

18 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers and communica-tion means	Vehicles	Office equipment	Capital investments in fixed assets	Capital investments in leased assets	Total
COST							
Cost at January 1, 2014	551,825	148,750	58,137	92,071	190,778	24,989	1,066,550
Additions	-	13,395	434	10,920	-	-	24,749
Disposals	-	(11,450)	-	(1,403)	-	-	(12,853)
At December 31, 2014	**551,825**	**150,695**	**58,571**	**101,588**	**190,778**	**24,989**	**1,078,446**
Additions	**-**	**21,687**	**35,081**	**10,186**	**-**	**-**	**66,954**
Disposals	**-**	**(5,931)**	**(17,703)**	**(1,498)**	**-**	**-**	**(25,132)**
At December 31, 2015	**551,825**	**166,451**	**75,949**	**110,276**	**190,778**	**24,989**	**1,120,268**
ACCUMULATED DEPRECIATION							
At January 1, 2014	79,708	120,348	37,518	72,005	-	-	309,579
Depreciation charge	18,394	11,523	7,223	7,044	-	2,499	46,683
Disposals	-	(11,359)	-	(1,324)	-	-	(12,683)
At December 31, 2014	**98,102**	**120,512**	**44,741**	**77,725**	**-**	**2,499**	**343,579**
Depreciation charge	**18,394**	**15,558**	**13,188**	**7,738**	**-**	**2,499**	**57,377**
Disposals	**-**	**(5,931)**	**(17,198)**	**(1,498)**	**-**	**-**	**(24,627)**
At December 31, 2015	**116,496**	**130,139**	**40,731**	**83,965**	**-**	**4,998**	**376,329**
CARRYING VALUE							
At December 31, 2015	**435,329**	**36,312**	**35,218**	**26,311**	**190,778**	**19,991**	**743,939**
At December 31, 2014	453,723	30,183	13,830	23,863	190,778	22,490	734,867
At January 1, 2014	472,117	28,402	20,619	20,066	190,778	24,989	756,971

The management believes the fair value of the building of the Bank approximates its carrying amount.

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

Fully depreciated items

As of 31 December 2015 fixed assets included fully depreciated assets at cost in the amount of AMD 117,125 thousand (2014: AMD 105,324 thousand).

Contractual commitments

As of 31 December 2015 the Bank had no contractual commitments in respect of capital construction (2014: nil).

19 Intangible assets

In thousand Armenian drams	Software	Total
COST		
At January 1, 2014	80,048	80,048
Additions	5,049	5,049
Disposals	(773)	(773)
At December 31, 2014	**84,324**	**84,324**
Additions	**9,704**	**9,704**
At December 31, 2015	**94,028**	**94,028**
ACCUMULATED AMORTISATION		
At January 1, 2014	46,037	46,037
Amortization charge	9,351	9,351
Disposals	(773)	(773)
At December 31, 2014	**54,615**	**54,615**
Amortization charge	**8,435**	**8,435**
At December 31, 2015	**63,050**	**63,050**
CARRYING VALUE		
At December 31, 2015	**30,978**	**30,978**
At December 31, 2014	29,709	29,709
At January 1, 2014	34,011	34,011

As of 31 December 2015, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted (2014: either).

Contractual commitments

As of 31 December 2015 the Bank did not have any contractual commitments (2014: either).

20 Repossessed assets

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

In thousand Armenian drams	2015	2014
Property	**260,120**	128,682
Other	**277,381**	277,818
Total	**537,501**	406,500

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

21 Other assets

In thousand Armenian drams	2015	2014
Debtors and other receivables	**16,561**	2,907
Other assets	**3,120**	-
Total other financial assets	**19,681**	2,907
Prepayments	**131,344**	216,046
Gold in vault	**50,758**	64,395
Other prepaid taxes	**12,370**	4,717
Materials	**3,059**	2,111
Other assets	**432**	726
Total non-financial assets	**197,963**	287,995
Total other assets	**217,644**	290,902

As of December 31, 2015 and 2014 prepayments represent amounts paid to Compulsory Enforcement Service for the acquisition of repossessed assets from auctions.

22 Amounts due to the CBA

In thousand Armenian drams	2015	2014
Loans under repurchase agreements	**9,567,686**	23,717,060
Other loans and advances	**1,500,684**	575,240
Total amounts due to the CBA	**11,068,370**	24,292,300

Other loans and advances include loans in the amount of AMD 1,500,684 thousand received within the scope of loan project "Development of the renewable energies" of the German-Armenian fund (2014: AMD 575,240 thousand).

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

23 Amounts due to other financial institutions

In thousand Armenian drams	2015	2014
Loans from international financial institutions	**2,681,816**	3,760,832
Loans from financial institutions	**3,368,693**	579,797
Deposits from financial institutions	**2,858,165**	2,187,623
Current accounts of other financial institutions	**1,135,796**	471,580
Letter of credit	**93,896**	76,583
Correspondent accounts of other banks	**16,814**	817
Other liabilities	**760**	697
Total amounts due to financial institutions	**10,155,940**	7,077,929

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development.

All deposits from other financial institutions have fixed interest rates.

As of 31 December 2015 the weighted average effective interest rate on amounts due to financial institutions is 8.79% (2014: 7.46%).

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

24 Amounts due to customers

In thousand Armenian drams	2015	2014
RA government		
Loans received from the RA government	**24,838**	90,592
Other liabilities	**20,000**	20,000
	44,838	110,592
Corporate customers		
Current/settlement accounts	**5,706,676**	3,857,807
Time deposits	**21,350,086**	21,224,929
	27,056,762	25,082,736
Retail customers		
Current/settlement accounts	**2,363,325**	1,052,217
Time deposits	**8,620,185**	8,088,368
Repo contracts	**198,172**	306,653
	11,181,682	9,447,238
Total amounts due to customers	**38,283,282**	34,640,566

Loans and deposits carry fixed interest rates.

Loans from the RA government represent amounts received within the scope of "Accrediting economic stability" program.

As of 31 December 2015 included in amounts due to customers are deposits amounting to AMD 8,457,769 thousand held as security against loans, guarantees and other contingent liabilities (2014: AMD 6,749,276 thousand). The fair value of those deposits approximates the carrying amount.

As of 31 December 2015 the aggregate balance of top three customers of the Bank (including related parties, refer to note 31) amounts to AMD 24,256,282 thousand (2014: 26,601,418 thousand) or 63% of total customer accounts (2014: 77%).

As of 31 December 2015 the weighted average effective interest rates on amounts due to customers were 9.49% (2014: 7.23%).

25 Debt securities issued

In thousand Armenian drams	2015	2014
Non-current bonds	**4,914,476**	-
Total debt securities issued	**4,914,476**	-

During 2015, the Bank had issued interest-bearing foreign currency bonds with total value of AMD 4,914,476 thousand (2014: nil) maturing in April 2020.

Other debt securities issued by the Bank as of December 31, 2015, bear annual effective interest rates ranging from 7.71% to 8.78%.

The Bank has not repurchased any of its own debt during the year.

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

26 Subordinated debt

In thousand Armenian drams	**2015**	2014
Subordinated debt provided by legal entities	**2,419,545**	-
Total subordinated debt	**2,419,545**	-

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments.

Subordinated debt, provided by legal entities, is subordinated debt issued on 26 August 2015 in the amount of USD 5 million at 3% per annum payable monthly with contractual maturity of August 2022.

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

27 Other liabilities

In thousand Armenian drams	**2015**	2014
Accounts payables	**82,160**	104,771
Due to personnel	**63,661**	38,761
Total other financial liabilities	**145,821**	143,532
Tax payable, other than income tax	**27,955**	49,575
Other liabilities	**3,785**	2,516
Total other non-financial liabilities	**31,740**	52,091
Total other liabilities	**177,561**	195,623

28 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**		**Liability**	
	2015	2014	**2015**	2014
Securities available for sale (Note 17, 22, 24)	**10,060,292**	24,568,809	**9,765,858**	24,023,713
	10,060,292	24,568,809	**9,765,858**	24,023,713

The pledged securities are those financial assets pledged under repurchase agreements with other banks and other financial institutions, with the right to sell or re-pledge by the counterparty.

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

29 Equity

As of 31 December 2015 the Bank's registered and paid-in share capital was AMD 8,752,800 thousand. In accordance with the Bank's statues, the share capital consists of 14,588 ordinary shares, all of which have a par value of AMD 600 thousand each.

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

Հազար ՀՀ դրամ

	Paid-in share capital	% of total paid-in capital
Vardan Sirmakes	**7,002,000**	**80%**
BELEGGINGSMAATSCHAPPIJ JONGO B.V.	**1,750,800**	**20%**
	8,752,800	**100%**

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

In 2015 the shareholders of the Bank did not increase its share capital (2014: nil).

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

30 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**2015**	2014
Undrawn loan commitments	**1,261,741**	1,394,359
Guarantees	**2,045,374**	384,744
Unused part of factoring limit	**1,072,606**	-
Total commitments and contingent liabilities	**4,379,721**	1,779,103

The maximum exposure to credit risk of loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

Operating lease commitments – Bank as a lessee

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

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

In thousand Armenian drams	**2015**	2014
Not later than 1 year	**17,280**	17,280
1 - 5 years	**86,400**	69,120
Later than 5 years	**38,880**	61,920
Total operating lease commitments	**142,560**	148,320

Contractual commitments

Information on the Bank's contractual commitments is disclosed in Notes 18, 19.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. However, as of 31 December 2015 the Bank's building and transportation are insured. The Bank possesses insurances for all banking liabilities, electronic or computer crimes and for professional responsibility.

31 Transactions with related parties

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

The ultimate controlling party of the Bank is Swiss businessman Vardan Sirmakes.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

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

In thousand Armenian drams		**2015**		2014
	Shareholders and related parties	**Key management personnel and related parties**	Shareholders and related parties	Key management personnel and related parties
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	**2,455,340**	**196,573**	1,608,840	201,240
Loans issued during the year	**1,125,024**	**482,347**	2,200,421	20,628
Loan repayments during the year	**(2,224,811)**	**(546,759)**	(1,353,921)	(25,295)
Loans outstanding at December 31, gross	**1,355,553**	**132,161**	2,455,340	196,573
Less allowance for loan impairment	**(13,556)**	**(1,322)**	(24,967)	(1,682)
Loans outstanding at December 31	**1,341,997**	**130,839**	2,430,373	194,891
Amounts due to customers				
Deposits at January 1	**20,384,929**	**180,966**	15,887,247	63,995
Deposits received during the year	**57,797,290**	**892,663**	80,356,504	1,430,647
Deposits repaid during the year	**(56,308,063)**	**(909,209)**	(75,858,822)	(1,313,676)
Deposits at December 31	**21,874,156**	**164,420**	20,384,929	180,966
Amounts due from other financial institutions				
At January 1	**759,387**	**-**	69,143	-
Increase	**10,521,325**	**-**	7,906,458	-
Decrease	**(9,612,974)**	**-**	(7,216,214)	-
At December 31	**1,667,738**	**-**	759,387	-
Amounts due to other financial institutions				
At January 1	**698**	**-**	501	-
Increase	**5,773,768**	**-**	3,465,808	-
Decrease	**(5,774,084)**	**-**	(3,465,611)	-
At December 31	**382**	**-**	698	-
Debt securities issued				
At January 1	**-**	**-**	**-**	-
Increase	**4,558,774**	**-**	**-**	-
Decrease	**(180,726)**	**-**	**-**	-
At December 31	**4,378,048**	**-**	**-**	-

In thousand Armenian drams	2015		2014	
	Shareholders and related parties	**Key management personnel and related parties**	Shareholders and related parties	Key management personnel and related parties
Subordinated debt				
At January 1	**-**	**-**	**-**	-
Increase	**2,589,650**	**-**	**-**	-
Decrease	**(170,105)**	**-**	**-**	-
At December 31	**2,419,545**	**-**	**-**	-
Guarantees issued	**-**	**10,023**	-	9,909
Statement of profit or loss and other comprehensive income				
Interest income on loans and advances to customers	**326,915**	**13,693**	280,035	11,092
Interest income from other financial institutions	**39,740**	**-**	17,618	-
Fee and commission income	**-**	**-**	6,914	1,579
Other income	**-**	**-**	-	102
Income from guarantees	**-**	**25**	-	150
Interest expense on deposits	**(1,851,617)**	**(6,379)**	(1,381,814)	(5,059)
Expenses on debt securities issued	**(249,529)**	**-**	-	-
Impairment (charge) /reversal for credit losses	**11,411**	**360**	(8,878)	331

The loans issued to directors and other key management personnel during the year are repayable over 2016-2027 years and have weighted average interest rate of 12.22% (2014: 12.41%).

At 31 December 2015 57% of amounts (2014: 59%) due to customers represent deposits attracted from the shareholder and annual interest expenses paid with regard to this deposit form 87% of total expenses (2014: 75%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and bonuses	**298,255**	451,441
Total key management compensation	**298,255**	451,441

32 Fair value measurement

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

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Board.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to contracts and other relevant documents. The

Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**13,709,860**	**-**	**13,709,860**	**13,709,860**
Amounts due from other financial institutions	**-**	**1,908,220**	**-**	**1,908,220**	**1,908,220**
Loans and advances to customers	**-**	**37,460,152**	**-**	**37,460,152**	**37,460,152**
Other financial assets	**-**	**19,681**	**-**	**19,681**	**19,681**
FINANCIAL LIABILITIES					
Amounts due to CBA	**-**	**11,068,370**	**-**	**11,068,370**	**11,068,370**
Amounts due to other financial institutions	**-**	**10,155,940**	**-**	**10,155,940**	**10,155,940**
Amounts due to customers	**-**	**38,283,282**	**-**	**38,283,282**	**38,283,282**
Debt securities issued	**-**	**4,914,476**	**-**	**4,914,476**	**4,914,476**
Subordinated debt	**-**	**2,419,545**	**-**	**2,419,545**	**2,419,545**
Other financial liabilities	**-**	**145,821**	**-**	**145,821**	**145,821**

In thousand Armenian drams	As of 31 December 2014				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	14,639,454	-	14,639,454	14,639,454
Amounts due from other financial institutions	-	723,252	-	723,252	723,252
Loans and advances to customers	-	37,262,041	-	37,262,041	37,262,041
Other financial assets	-	2,907	-	2,907	2,907
FINANCIAL LIABILITIES					
Amounts due to CBA	-	24,292,300	-	24,292,300	24,292,300
Amounts due to other financial institutions	-	7,077,929	-	7,077,929	7,077,929
Amounts due to customers	-	34,640,566	-	34,640,566	34,640,566
Other financial liabilities	-	143,532	-	143,532	143,532

Amounts due from and to other financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 7 % to 20% per annum (2014: 7% to 20% per annum).

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

Due to customers

The fair value of deposits from customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	**As of December 31, 2015**			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unquoted bonds	**-**	**19,827,601**	**-**	**19,827,601**
Securities pledged under repurchase agreement	**-**	**10,060,292**	**-**	**10,060,292**
Derivative financial assets	**-**	**3,136**	**-**	**3,136**
Total	**-**	**29,891,029**	**-**	**29,891,029**
NET FAIR VALUE	**-**	**29,891,029**	**-**	**29,891,029**

In thousand Armenian drams	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unquoted bonds	-	5,031,370	-	5,031,370
Securities pledged under repurchase agreement	-	24,568,809	-	24,568,809
Derivative financial assets	-	9,902	-	9,902
Total	-	29,610,081	-	29,610,081
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	113,715	-	113,715
Total	-	113,715	-	113,715
NET FAIR VALUE	-	29,496,366	-	29,496,366

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

Unquoted RA equity securities

The fair value of Bank's investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 17 for further information about this equity investment.

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams				**As of December 31, 2015**	
			Amounts offset	**Amounts not offset**	
	Gross financial assets/ liabilities	**Gross financial assets/ liabilities offset**	**Net amounts presented**	**Financial instruments**	**Net**
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 16)	**250,556**	**-**	**250,556**	**(252,078)**	**(1,522)**
FINANCIAL LIABILITIES					
Amounts payable on repurchase agreements (Note 22, 24)	**9,765,858**	**-**	**9,765,858**	**(10,060,292)**	**(294,434)**

In thousand Armenian drams					As of December 31, 2014
			Amounts offset	Amounts not offset	
	Gross financial assets/ liabilities	Gross financial assets/ liabilities offset	Net amounts presented	Financial instruments	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 16)	245,219	-	245,219	(203,079)	42,140
FINANCIAL LIABILITIES					
Amounts payable on repurchase agreements (Note 22, 24)	24,023,713	-	24,023,713	(24,568,809)	(545,096)

34 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								**2015**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
ASSETS								
Cash and cash equivalents	**13,709,860**	**-**	**-**	***13,709,860***	**-**	**-**	**-**	**13,709,860**
Amounts due from other financial institutions	**1,247,533**	**-**	**660,687**	***1,908,220***	**-**	**-**	**-**	**1,908,220**
Derivative financial instruments	**2,215**	**921**	**-**	***3,136***	**-**	**-**	**-**	**3,136**
Loans and advances to customers	**2,690,990**	**1,849,058**	**7,103,782**	***11,643,830***	**22,286,942**	**3,529,380**	***25,816,322***	**37,460,152**
Investments available for sale	**-**	**980,157**	**22,890**	***1,003,047***	**1,723,930**	**17,152,239**	***18,876,169***	**19,879,216**
Securities pledged under repurchase agreements	**10,060,292**	**-**	**-**	***10,060,292***	**-**	**-**	**-**	**10,060,292**
Other assets	**19,681**	**-**	**-**	***19,681***	**-**	**-**	**-**	**19,681**
	27,730,571	**2,830,136**	**7,787,359**	***38,348,066***	**24,010,872**	**20,681,619**	**44,692,491**	**83,040,557**
LIABILITIES								
Amounts due to the CBA	**9,643,588**	**6,702**	**140,871**	***9,791,161***	**751,959**	**525,250**	***1,277,209***	**11,068,370**
Amounts due to other financial institutions	**4,269,193**	**554,308**	**2,130,324**	***6,953,825***	**2,879,529**	**322,586**	***3,202,115***	**10,155,940**
Amounts due to customers	**8,536,788**	**7,954,518**	**10,752,695**	***27,244,001***	**10,990,602**	**48,679**	***11,039,281***	**38,283,282**
Debt securities issued	**76,976**	**-**	**-**	***76,976***	**4,837,500**	**-**	***4,837,500***	**4,914,476**
Subordinated debt	**795**	**-**	**-**	***795***	**-**	**2,418,750**	***2,418,750***	**2,419,545**
Other liabilities	**145,821**	**-**	**-**	***145,821***	**-**	**-**	**-**	**145,821**
	22,673,161	**8,515,528**	**13,023,890**	***44,212,579***	**19,459,590**	**3,315,265**	***22,774,855***	**66,987,434**
Net position	**5,057,410**	**(5,685,392)**	**(5,236,531)**	***(5,864,513)***	**4,551,282**	**17,366,354**	**21,917,636**	**16,053,123**
Accumulated gap	**5,057,410**	**(627,982)**	**(5,864,513)**		**(1,313,231)**	**16,053,123**		

In thousand Armenian drams	2014							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
ASSETS								
Cash and cash equivalents	14,639,454	-	-	*14,639,454*	-	-	-	14,639,454
Amounts due from other financial institutions	487,605	5,577	25,616	*518,798*	167,196	37,258	*204,454*	723,252
Derivative financial instruments	-	9,902	-	*9,902*	-	-	-	9,902
Loans and advances to customers	372,584	1,544,741	6,977,558	*8,894,883*	16,117,872	12,249,286	*28,367,158*	37,262,041
Investments available for sale	99,304	140,238	345,163	*584,705*	1,524,181	3,221,117	*4,745,298*	5,330,003
Securities pledged under repurchase agreements	24,568,809	-	-	*24,568,809*	-	-	-	24,568,809
Other assets	-	2,907	-	*2,907*	-	-	-	2,907
	40,167,756	1,703,365	7,348,337	49,219,458	17,809,249	15,507,661	33,316,910	82,536,368
LIABILITIES								
Amounts due to the CBA	23,270,671	505,225	53,793	*23,829,689*	246,662	215,949	*462,611*	24,292,300
Derivative financial liabilities	113,715	-	-	*113,715*	-	-	-	113,715
Amounts due to other financial institutions	1,689,051	371,201	1,708,534	*3,768,786*	3,111,508	197,635	*3,309,143*	7,077,929
Amounts due to customers	5,577,164	696,783	5,790,205	*12,064,152*	22,528,704	47,710	*22,576,414*	34,640,566
Other liabilities	104,771	-	38,761	*143,532*	-	-	-	143,532
	30,755,372	1,573,209	7,591,293	*39,919,874*	25,886,874	461,294	*26,348,168*	66,268,042
Net position	9,412,384	130,156	(242,956)	*9,299,584*	(8,077,625)	15,046,367	6,968,742	16,268,326
Accumulated gap	9,412,384	9,542,540	9,299,584		1,221,959	16,268,326		

35 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk management structure

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

Board of the Bank

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

Management

The Management has the responsibility to monitor the overall risk process.

Credit Committee

The Credit Committee performs overall management and control of the credit risk, approves credits within the scopes of its limits.

Risk Management Department

The Risk Management Department is responsible for the principles and policy of management of investment risks, and for the development and implementation of the Bank's risk limits.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that estimates the adequacy of the procedures, the compliance of the Bank's activity with the procedures, as well as the efficiency of operations carried out by the Bank and the opportunities for their improvement. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Management and Board of the Bank.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, risk profile changes and other indicators.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other foreign currency instruments, as well as obtains insurance certificates for overall banking risks, movable and immovable property.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

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

35.1 Credit risk

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

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

35.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

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

In thousand Armenian drams				**2015**
	Armenia	**Non-OECD countries**	**OECD countries**	**Total**
Cash and cash equivalents	**13,142,721**	**494,753**	**72,386**	**13,709,860**
Amounts due from other financial institutions	**1,565,391**	**183,737**	**159,092**	**1,908,220**
Derivative financial assets	**3,136**		**-**	**3,136**
Loans and advances to customers	**37,267,828**	**114,618**	**77,706**	**37,460,152**
Investments available for sale	**19,879,216**		**-**	**19,879,216**
Securities pledged under repurchase agreements	**10,060,292**	**-**	**-**	**10,060,292**
Other assets	**11,170**	**-**	**8,511**	**19,681**
As of 31 December 2015	**81,929,754**	**793,108**	**317,695**	**83,040,557**
As of 31 December 2014	46,310,816	36,152,942	72,610	82,536,368

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

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December 2015 and 31 December 2014.

In thousand Armenian drams	Financial institutions	Industry	Agriculture	Construction	Trading	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	**13,709,860**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,709,860**
Amounts due from other financial institutions	**1,908,220**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,908,220**
Derivative financial assets	**3,136**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,136**
Loans and advances to customers	**-**	**12,893,888**	**5,280,639**	**1,181,385**	**3,280,447**	**1,319,786**	**4,426,614**	**9,077,393**	**37,460,152**
Investments available for sale	**19,879,216**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,879,216**
Securities pledged under repurchase agreements	**10,060,292**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,060,292**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,681**	**19,681**
As of 31 December 2015	**45,560,724**	**12,893,888**	**5,280,639**	**1,181,385**	**3,280,447**	**1,319,786**	**4,426,614**	**9,097,074**	**83,040,557**
As of 31 December 2014	45,271,420	13,654,542	4,760,996	970,738	5,146,855	1,404,773	3,542,173	7,784,871	82,536,368

35.1.2 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

The Board has defined criteria for choosing counterparties in the framework of credit risk based on the rating of famous credit rating agencies such as S&P's and Moody's Credit Rating agencies. The Board of the Bank exceptionally specifies corresponding limits of credit risk if a necessity arises to collaborate with a counterparty which does not have investment reputation.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Real estate pledged by mortgage contracts;
- Charges over business assets such as premises, other fixed assets and inventory;
- Charges over financial instruments such as debt securities and equities
- Cash
- Guarantees

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

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

In thousand Armenian drams	**2015**	2014
Loans collateralized by real estate	**22,157,051**	16,564,914
Loans collateralized by movable property	**503,620**	2,129,712
Loans collateralized by RA Government guarantees	**2,344,065**	8,810,414
Loans collateralized by guarantees of other organizations	**4,567,513**	2,095,920
Loans collateralized by cash	**8,457,769**	6,749,276
Loans collateralized by shares of other companies	**342,208**	175,896
Other collateral	**252,290**	1,467,028
Total loans and advances to customers (gross)	**38,624,516**	37,993,160

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

Credit-related commitments

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

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

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

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**2015**	2014
Loans and advances to customers		
Industry	**1.9%**	1.1%
Agriculture	**1.4%**	1.3%
Construction	**1.3%**	1.0%
Trade	**1.4%**	1.7%
Mortgage	**1.0%**	0.3%
Services	**4.7%**	4.9%
Other	**1.9%**	2.0 %

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

Past due, but not impaired loans

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

In thousand Armenian drams					**2015**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Industry	**241,937**	**1,949,911**	**12,973**	**28,125**	**2,232,946**
Mortgage	**-**	**2,952**	**50,258**	**20,564**	**73,774**
Construction	**38,582**	**-**	**-**	**-**	**38,582**
Consumer sector	**-**	**51,677**	**-**	**2**	**51,679**
Trade	**-**	**12,290**	**-**	**13,079**	**25,369**
Other	**-**	**5,524**	**-**	**2,657**	**8,181**
Total	**280,519**	**2,022,354**	**63,231**	**64,427**	**2,430,531**

In thousand Armenian drams					2014
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Industry	215,999	383,646	-	171,957	771,602
Construction	81,138	-	-	-	81,138
Consumer sector	13,106	8,035	-	2,522	23,663
Agriculture	-	-	-	24,282	24,282
Trade	-	-	7,051	-	7,051
Other	24,221	-	48,614	32,632	105,467
Total	334,464	391,681	55,665	231,393	1,013,203

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk is managed and monitored based on sensitivity analysis and stress tests. The foreign currency risk is managed and monitored based on hedging strategies and positions management.

35.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

The sensitivity of other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2015 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams							**2015**
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**0.5**	**-**	**(1,387)**	**(5,529)**	**(146,387)**	**(881,072)**	**(1,034,375)**
USD	**0.5**	**-**	**-**	**-**	**-**	**-**	**-**
AMD	**(0.5)**	**-**	**1,387**	**5,529**	**146,387**	**881,072**	**1,034,375**
USD	**(0.5)**	**-**	**-**	**-**	**-**	**-**	**-**

In thousand Armenian drams							2014
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	0.5		(259)	(606)	(13,700)	(70,855)	(85,420)
USD	0.5		-	-	-	-	-
AMD	(0.5)		258	604	13,658	70,843	85,363
USD	(0.5)		-	-	-	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments).

A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**2015**		2014	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**5%**	**105,384**	5%	(13,212)
EUR	**3%**	**3,090**	3%	(214)

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	**7,732,410**	**5,954,069**	**23,381**	**13,709,860**
Amounts due from other financial institutions	**1,904,949**	**3,257**	**14**	**1,908,220**
Derivative financial assets	**3,136**	**-**	**-**	**3,136**
Loans and advances to customers	**5,237,677**	**32,222,475**	**-**	**37,460,152**
Investments available for sale	**19,426,354**	**452,862**	**-**	**19,879,216**
Securities pledged under repurchase agreements	**10,060,292**	**-**	**-**	**10,060,292**
Other assets	**19,681**	**-**	**-**	**19,681**
	44,384,499	**38,632,663**	**23,395**	**83,040,557**
LIABILITIES				
Amounts due to the CBA	**11,068,370**	**-**	**-**	**11,068,370**
Amounts due to financial institutions	**5,680,904**	**4,454,940**	**20,096**	**10,155,940**
Amounts due to customers	**11,695,118**	**26,554,503**	**33,661**	**38,283,282**
Debt securities issued	**-**	**4,914,476**	**-**	**4,914,476**
Subordinated debt	**-**	**2,419,545**	**-**	**2,419,545**
Other liabilities	**145,266**	**555**	**-**	**145,821**
	28,589,658	**38,344,019**	**53,757**	**66,987,434**
Net position as of 31 December 2015	**15,794,841**	**288,644**	**(30,362)**	**16,053,123**
Commitments and contingent liabilities as of 31 December 2015	**2,119,328**	**2,179,960**	**80,433**	**4,379,721**
Total financial assets	46,310,816	36,152,942	72,610	82,536,368
Total financial liabilities	28,551,481	37,678,232	38,329	66,268,042
Net position as of 31 December 2014	17,759,335	(1,525,290)	34,281	16,268,326
Commitments and contingent liabilities as of 31 December 2014	364,520	1,309,011	105,572	1,779,103

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

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See note 13. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

As of 31 December, these ratios were as follows:

	Not audited	
	2015, %	2014, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**41.59**	35.9
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**263.05**	351.56

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. See note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						**2015**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to the CBA	**9,644,860**	**15,300**	**218,235**	**1,011,580**	**596,890**	**11,486,865**
Amounts due to other financial institutions	**4,619,939**	**565,669**	**2,332,341**	**3,313,171**	**371,107**	**10,831,120**
Amounts due to customers	**8,831,667**	**8,290,459**	**11,774,837**	**11,979,920**	**48,612**	**40,925,495**
Debt securities issued	**97,509**	**-**	**283,191**	**5,654,181**	**-**	**6,034,881**
Subordinated debt	**7,144**	**12,698**	**57,143**	**304,763**	**2,539,688**	**2,921,436**
Other liabilities	**145,821**	**-**	**-**	**-**	**-**	**145,821**
Total undiscounted non-derivative financial liabilities	**23,346,940**	**8,884,126**	**14,665,747**	**22,263,615**	**3,556,297**	**72,345,618**
Credit risk commitments	**2,350,616**	**170,607**	**509,433**	**116,877**	**1,232,188**	**4,379,721**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**620,283**	**-**	**-**	**-**	**-**	**620,283**
Outflow	**624,367**	**-**	**-**	**-**	**-**	**624,367**

In thousand Armenian drams						2014
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to the CBA	23,448,864	509,443	68,401	329,131	266,698	24,622,537
Amounts due to other financial institutions	1,717,198	380,041	1,865,685	4,050,111	220,357	8,233,392
Amounts due to customers	5,721,293	980,448	7,118,627	25,488,505	52,988	39,361,861
Other liabilities	104,771	-	38,761	-	-	143,532
Total undiscounted non-derivative financial liabilities	30,992,126	1,869,932	9,091,474	29,867,747	540,043	72,361,322
Credit risk commitments	301,082	39,594	691,498	643,896	103,033	1,779,103
Derivative financial liabilities						
Currency swap contracts						
Inflow	1,164,311	-	-	-	-	1,164,311
Outflow	1,268,124	-	-	-	-	1,268,124

35.4 Operational risk

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

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

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

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

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

36 Capital adequacy

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

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserve.

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

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

	Not audited	
In thousand Armenian drams	**2015**	2014
Tier 1 capital	**19,304,558**	18,504,278
Tier 2 capital	**(280,189)**	(577,326)
Total regulatory capital	**19,024,369**	17,926,952
Risk-weighted assets	**99,272,046**	87,749,512
Capital adequacy ratio	**19.16%**	20.43%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2004 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the Bank and new banks, as of 1 January 2017 and after that period.

Based on the Bank's perspective development program the Shareholders will increase the charter capital at least at AMD 6 billion in July 2016, as well as in July and October will be borrowed subordinated debt in USD equivalent to AMD 6 billion, in AMD 3 billion equivalent portions, which will be included in the regulatory capital calculation and will ensure minimum size of total capital requirement of the Central Bank of Armenia.

37 Segment reporting

In terms of IFRS 8 the Bank's operations are not separated to operating segments and are a complete business unit. The Bank's chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Bank's assets are mainly distributed in the territory of the Republic of Armenia. The Bank's income is derived from the Armenian sources.

www.grantthornton.am