Grant Thornton

Financial Statements and Independent Auditor's Report

"Prometey Bank" Limited Liability Company

31 December 2015

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Grant Thornton

Independent auditor's report

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To the Participants and Board of Directors of "Prometey Bank" Limited Liability Company:

We have audited the accompanying financial statements of "Prometey Bank" LLC (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 of the audited entity 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 "Prometey Bank" LLC (the "Bank") as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a 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 regulatory capital AMD 30,000,000 thousand as of January 1, 2017 and after that period. Due to the assurance of the Bank's shareholders and management the mentioned above requirement will be met by the replenishment of the Bank's charter capital and other elements of the regulatory capital. Our opinion is not qualified due to this matter.

Gagik Gyulbudaghyan
Managing Partner

Vahagn Payan
Auditor

Grant Thornton CJSC
12 April, 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	**5,878,744**	5,249,734
Interest and similar expense	6	**(3,419,373)**	(2,847,616)
Net interest income		**2,459,371**	2,402,118
Fee and commission income	7	**358,047**	321,741
Fee and commission expense	7	**(320,352)**	(450,179)
Net fee and commission income		**37,695**	(128,438)
Net trading income	8	**596,551**	439,314
Net gains on investments available for sale		**21,238**	247,889
Other income	9	**120,007**	379,115
Impairment charge	10	**(66,637)**	(361,920)
Staff costs	11	**(994,721)**	(1,063,054)
Depreciation of property, plant and equipment and amortization of intangible assets	19	**(267,881)**	(167,690)
Other expenses	12	**(715,712)**	(550,817)
Profit before income tax		**1,189,911**	1,196,517
Income tax expense	13	**(283,258)**	(228,754)
Profit for the year		**906,653**	967,763
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**-**	2,022,783
Income tax relating to items not reclassified		**-**	(404,557)
Net income from items that will not be reclassified subsequently to profit or loss		**-**	1,618,226
Items that will be reclassified subsequently to profit or loss			
Net unrealized losses from changes in fair value of available-for-sale financial assets		**(195,091)**	(440,588)
Net gains realized to net profit on disposal of available for sale investments		**(70,134)**	(274,334)
Income tax relating to items that will be reclassified		**53,045**	142,985
Net losses from items that will be reclassified subsequently to profit or loss		**(212,180)**	(571,937)
Other comprehensive income for the year, net of tax		**(212,180)**	1,046,289
Total comprehensive income for the year		**694,473**	2,014,052

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Cash and cash equivalents	14	**14,559,127**	15,895,791
Amounts due from other financial institutions	15	**8,923,705**	5,805,918
Derivative financial assets	16	**-**	27,026
Loans and advances to customers	17	**36,748,049**	36,768,073
Investments available for sale	18	**488,387**	137,414
Securities pledged under repurchase agreements	28	**8,587,674**	10,098,647
Prepaid income taxes		**-**	107,072
Property, plant and equipment and intangible assets	19	**4,000,777**	4,171,377
Repossessed assets	20	**4,640,976**	4,652,163
Other assets	21	**61,889**	112,591
TOTAL ASSETS		**78,010,584**	77,776,072
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	22	**10,520,133**	11,241,975
Trading financial liabilities	15	**794,781**	3,106,052
Amounts due to customers	23	**33,120,887**	29,264,468
Debt securities issued	24	**-**	5,908,602
Other borrowings	25	**493,680**	740,557
Subordinate debts	26	**8,413,023**	3,613,413
Current income tax liabilities		**772**	-
Deferred income tax liabilities	13	**497,578**	440,772
Other liabilities	27	**303,112**	288,088
Total liabilities		**54,143,966**	54,603,927
Equity			
Charter capital	29	**14,400,000**	14,400,000
General reserve		**52,075**	52,075
Other reserves		**1,253,284**	1,525,120
Retained earnings		**8,161,259**	7,194,950
Total equity		**23,866,618**	23,172,145
TOTAL LIABILITIES AND EQUITY		**78,010,584**	77,776,072

The financial statements from pages 3 to 52 were signed by the Bank's General Manager and Chief Accountant on 12 April 2016.

Emil Soghomonyan
General manager

Alvard Mkrtumyan
Chief accountant

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Charter capital	General reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2014	14,400,000	52,075	480,429	-	7,120,589	22,053,093
Dividends to shareholders	-	-	-	-	(895,000)	(895,000)
Total transactions with owners	-	-	-	-	(895,000)	(895,000)
Profit for the year	-	-	-	-	967,763	967,763
Other comprehensive income:						
Revaluation of PPE	-	-	-	2,022,783	-	2,022,783
Adjustment to reserve on amortization or disposal of PPE	-	-	-	(1,598)	1,598	-
Net unrealized losses from changes in fair value	-	-	(440,588)	-	-	(440,588)
Net gains realized to net profit on available for sale investments	-	-	(274,334)	-	-	(274,334)
Income tax relating to components of other comprehensive income	-	-	142,985	(404,557)	-	(261,572)
Total comprehensive income for the year	-	-	(571,937)	1,616,628	969,361	2,014,052
Balance as of December 31, 2014	**14,400,000**	**52,075**	**(91,508)**	**1,616,628**	**7,194,950**	**23,172,145**
Profit for the year	-	-	-	-	906,653	906,653
Other comprehensive income:						
Adjustment to reserve on amortization of PPE	-	-	-	(59,656)	59,656	-
Net unrealized losses from changes in fair value	-	-	(195,091)	-	-	(195,091)
Net gains realized to net profit on disposal of available for sale investments	-	-	(70,134)	-	-	(70,134)
Income tax relating to components of other comprehensive income	-	-	53,045	-	-	53,045
Total comprehensive income for the year	-	-	(212,180)	(59,656)	966,309	694,473
Balance as of December 31, 2015	14,400,000	52,075	(303,688)	1,556,972	8,161,259	23,866,618

The accompanying notes on pages 7 to 52 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	**1,189,911**	1,196,517
Adjustments for		
Amortization and depreciation allowances	**267,881**	167,690
Net gains on disposal of PPE	**-**	(5,175)
Impairment charge	**66,637**	361,920
Loss from revaluation of derivative financial instruments	**2,081**	26,460
Gains less losses from revaluation of non-trading assets and liabilities	**64,786**	(192,840)
Interest receivable	**(167,060)**	(106,030)
Interest payable	**6,448**	-
Cash flows from operating activities before changes in operating assets and liabilities	**1,430,684**	1,448,542
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**(3,191,259)**	(1,558,472)
Investments available for sale	**(604,560)**	3,307,594
Securities pledged under repurchase agreements	**(800,298)**	(4,917,962)
Derivative financial assets	**24,945**	(53,486)
Loans and advances to customers	**(242,370)**	(5,422,914)
Repossessed assets	**173,054**	235,691
Other assets	**34,907**	(43,594)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(590,166)**	5,981,586
Amounts due to customers	**3,528,677**	(35,986)
Derivative financial liabilities	**-**	(3,935)
Other liabilities	**52,121**	113,635
Net cash used in operating activities before income tax	**(184,265)**	(949,301)
Income tax paid	**(65,563)**	(327,786)
Net cash from used in operating activities	**(249,828)**	(1,277,087)
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	**(97,281)**	(331,479)
Proceeds from sale of property, plant and equipment	**-**	5,746
Net cash used in investing activities	**(97,281)**	(325,733)
Cash flows from financing activities		
Issue/(redemption) of debt securities	**(5,452,455)**	1,478,973
Dividends paid	**-**	(895,000)
Other long term loans	**4,552,733**	(245,913)
Net cash from/(used in) financing activities	**(899,722)**	338,060
Net decrease in cash and cash equivalents	**(1,246,831)**	(1,264,760)
Cash and cash equivalents at the beginning of the year	**15,895,791**	16,394,988
Exchange differences on cash and cash equivalents	**(89,833)**	765,563
Cash and cash equivalents at the end of the year (Note 14)	**14,559,127**	15,895,791
Supplementary information:		
Interest received	**5,711,684**	5,143,704
Interest paid	**(3,606,608)**	(2,852,109)

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"Prometey Bank" LLC (the "Bank") is a limited liability company, which was incorporated in the Republic of Armenia on 01.06.1990. The Bank is regulated by the legislation of RA and conducts its business under license number 27, granted on 02.10.1991 by the Central Bank of Armenia (the "CBA").

The Bank is a member of Individuals deposit compensation guarantee state system of RA , as well as member of Union of Banks of Armenia, ArCa, MasterCard payment systems.

The Bank accepts deposits from the public and extends credits, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The head office of the Bank and its 7 branches are located in Yerevan; one branch is located in Gyumri, one branch in Abovyan and another branch is located in Vanadzor.

The registered office of the Bank is located at: 44/2 Hanrapetutyan str. Yerevan 0010, Republic of Armenia.

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, as well as non-financial assets and liabilities are stated at amortized or historical cost, with the exception of land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Dram ("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. 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

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2015, did not have a material impact on the annual financial statements of the Bank.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.

3.5 Standards, amendments 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 has 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.

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

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *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 is recognized:

Interest income and expense

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

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

Fee and commission income

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

Dividend income

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

Net trading income

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

4.2 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recorded 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 analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in the own equity.

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

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

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

	December 31, 2015	December 31, 2014
AMD/1 US Dollar	**483.75**	474.97
AMD/1 EUR	**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 profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, 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 Amounts due from other financial institutions

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

4.6 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,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial instruments and.

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

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

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

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in financial results. 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.

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial 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.

4.7 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.

Renegotiated loans

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss and other comprehensive income, is transferred from equity to the statement of profit or loss and other comprehensive income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognized in the statement of profit or loss and other comprehensive income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of 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.

4.8 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.

4.9 Repurchase and reverse repurchase agreements

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

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

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

4.10 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

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

4.11 Leases

Operating - Bank as leasee

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

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. Bank's buildings and land are presented at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	40	2.5
Computers	3	33.3
Vehicles	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. 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.

The frequency of revaluation of land and buildings depend on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss and other comprehensive income, in which case the increase is recognised in the statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the statement of profit or loss and other comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.13 Intangible assets

Intangible assets include computer software, licences and other.

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

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

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

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 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 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.

4.19 Capital

Charter capital

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.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

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

4.20 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

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

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Fair value of derivatives

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

Related party transactions

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

Impairment of loans and receivables

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

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

Tax legislation

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

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	4,104,519	3,918,625
Securities available for sale	920,351	850,250
Reverse repurchase transactions	499,496	241,817
Amounts due from other financial institutions	284,466	131,774
Accrued interest on individually impaired assets	69,912	107,268
Total interest and similar income	5,878,744	5,249,734
Amounts due to customers	1,684,793	1,573,307
Repurchase transactions	1,029,171	453,216
Subordinate debt	286,537	287,996
Debt securities issued	292,586	274,060
Amounts due to financial institutions	76,622	190,738
Other borrowings	49,664	68,299
Total interest and similar expense	3,419,373	2,847,616

7 Fee and commission income and expense

In thousand Armenian drams	2015	2014
Wire transfer fees	214,263	194,707
Plastic cards operations	73,148	66,003
Cash operations	29,114	22,096
Other fees and commissions	41,522	38,935
Total fee and commission income	358,047	321,741
Wire transfer fees	212,594	352,961
Plastic cards operations	63,041	55,969
Correspondent accounts maintenance	44,253	39,146
Other expenses	464	2,103
Total fee and commission expense	320,352	450,179

8 Net trading income

In thousand Armenian drams	2015	2014
Gains less losses from trading in foreign currencies	655,968	987,255
Net loss from disposal of derivative instruments	(57,336)	(521,481)
Net loss from revaluation of derivative instruments	(2,081)	(26,460)
Total net trading income	596,551	439,314

9 Other income

In thousand Armenian drams	2015	2014
Foreign currency translation net gains of non-trading assets and liabilities	-	192,840
Fines and penalties received	92,912	147,623
Income from issue of guarantees and letters of credit	6,055	15,627
Net income from disposal of PPE	-	5,175
Gains less losses from grants relating to assets	2,074	2,074
Income from dividends	1,916	98
Other income	17,050	15,678
Total other income	120,007	379,115

10 Impairment charge

In thousand Armenian drams	2015	2014
Loans and advances to customers (Note 17)	57,661	335,397
Other assets (Note 21)	8,976	26,523
Total Impairment charge	66,637	361,920

11 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	986,485	1,056,948
Staff training costs	1,319	1,695
Other staff expenses	6,917	4,411
Total staff costs	994,721	1,063,054

12 Other expenses

In thousand Armenian drams	2015	2014
Operating lease	107,817	94,778
Communications	94,749	93,021
Foreign currency translation net losses of non-trading assets and liabilities	64,786	-
Repair and maintenance expenses of tangible assets	64,743	59,733
Security	59,930	56,900
Deposit guarantee fund expenses	46,433	41,278
Advertising costs	43,621	35,685
Consulting and other services	30,333	33,410
Representative expenses	33,503	30,735
Incasation expenses	21,602	25,170
Office supplies	30,444	24,256
Taxes, other than income tax, duties	52,369	18,324
Business trip expenses	5,186	13,755
Financial system mediator expenses	16,248	6,377
Other expenses	43,948	17,395
Total other expense	715,712	550,817

13 Income tax expense

In thousand Armenian drams	2015	2014
Current tax expense	178,922	161,437
Adjustments of current income tax of previous years	(5,515)	7,923
Deferred tax	109,851	59,394
Total income tax expense	283,258	228,754

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (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	1,189,911		1,196,517	
Income tax at the rate of 20%	237,982	20	239,303	20
Non-deductible expenses	37,418	3	14,804	1
Foreign exchange (gains)/losses	12,957	1	(38,568)	(3)
Net loss from revaluation of derivative instruments	416	-	5,292	-
Adjustments of current income tax of previous years	(5,515)	-	7,923	1
Income tax expense	283,258	24	228,754	19

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2014	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2015
Investments available for sale	22,878	-	53,045	75,923
Other liabilities	18,182	(7,054)	-	11,128
Total deferred tax assets	41,060	(7,054)	53,045	87,051
Amounts due from financial institutions	(6,337)	(919)	-	(7,256)
Property, plant and equipment*	(400,544)	19,765	-	(380,779)
Loans and advances to customers	(66,888)	(117,368)	-	(184,256)
Other assets	(8,063)	(4,275)	-	(12,338)
Total deferred tax liabilities	(481,832)	(102,797)	-	(584,629)
Net deferred tax liablity	(440,772)	(109,851)	53,045	(497,578)

In thousand Armenian drams	As of 31 December 2013	Recognized in profit or loss	Recognized in other comprehensive income	As of 31 December 2014
Available for sale investments	-	-	22,878	22,878
Other liabilities	14,372	3,810	-	18,182
Total deferred tax assets	14,372	3,810	22,878	41,060
Amounts due from financial institutions	(8,388)	2,051	-	(6,337)
Property, plant and equipment	(234)	4,247	(404,557)	(400,544)
Loans and advances to customers	(923)	(65,965)	-	(66,888)
Available for sale investments	(120,107)	-	120,107	-
Other assets	(4,526)	(3,537)	-	(8,063)
Total deferred tax liabilities	(134,178)	(63,204)	(284,450)	(481,832)
Net deferred tax liability	(119,806)	(59,394)	(261,572)	(440,772)

*Due to changes in the tax legislation in 2012, the tax base of revalued fixed assets changed and the Bank has formed deferred tax liability in respect of revaluation reserve of fixed assets in 2014.

14 Cash and cash equivalents

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Correspondent account with the CBA	**7,949,660**	11,391,577
Cash on hand	**6,054,842**	3,972,195
Correspondent accounts with banks	**554,625**	532,019
Total cash and cash equivalents	**14,559,127**	15,895,791

As at 31 December 2015 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which as at 31 December 2015 is computed at 2% (2014: 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 6,164,719 thousand (2014: 12%, AMD 6,628,655 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if mini mum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits in the CBA are non-interest bearing.

At 31 December 2015 the Bank had no nostro accounts (2014: either), the balances of which exceeded 10% of equity.

The following non-cash transaction took place during 2015:

- Repayment of loans through collaterals in the amount of AMD 161,867 thousand (2014: AMD 715,944 thousand).

15 Amounts due from other financial institutions

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Reverse repurchase agreements	**5,351,696**	3,706,100
Loans to banks	**1,741,662**	-
Loans to other financial institutions	**1,066,736**	1,715,083
Deposited funds in the CBA	**312,500**	252,500
Deposits in banks	**264,816**	-
Amounts due from other financial institutions	**121,233**	68,354
Other accounts	**65,062**	63,881
Total amounts due from other financial institutions	**8,923,705**	5,805,918

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

Deposits include deposits with maturity of for more than 90 days.

As of 31 December 2015 included in other accounts is AMD 65,062 thousand (2014: AMD 63,881 thousand) which represents a blocked deposit for membership in Master Card payment system

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2015 are presented as follows:

In thousand Armenian drams	As of 31 December 2015		As of 31 December 2014	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA Government bonds	**5,536,265**	**5,351,696**	4,039,019	3,706,100
Total assets pledged under reverse repurchase agreements	**5,536,265**	**5,351,696**	4,039,019	3,706,100

As at 31 December 2015 out of securities acquired under repurchase agreements securities in the amount of AMD 794,781 (2014: AMD 3,106,052 thousand) thousand were resold to third parties and their liability is accounted in "Trading liabilities" on the face of the statement of financial position.

16 Derivative financial instruments

In thousand Armenian drams	As of 31 December 2015			As of 31 December 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						
Spot transactions-currency	-	-	-	894,416	27,026	-
Total derivative financial instruments	-	-	-	894,416	27,026	-

All spot transactions of the Bank were signed with foreign counterparties.

17 Loans and advances to customers

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Loans	32,522,585	34,484,880
Credit lines and overdrafts	3,590,352	2,237,691
Credit cards	705,025	610,297
Reverse repurchase agreements	490,810	-
	37,308,772	37,332,868
Less allowance for loan impairment	(560,723)	(564,795)
Total loans and advances to customers	36,748,049	36,768,073

As of 31 December 2015 accrued interest income included in loans and advances to customers amounted to AMD 462,088 thousand (2014: AMD 320,011 thousand).

As of 31 December 2015 the weighted average effective interest rates on loans and advances to customers was 14.22 % for loans in AMD (2014: 15.8%) and 11.18 % for loans in USD, EUR and other freely convertible currencies (2014: 10.8%).

As at 31 December 2015 the Bank has two borrowers (2014: two), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 amounts to AMD 5,765,521 thousand (2014: AMD 7,144,319 thousand).

As of 31 December 2015, loans to customers in amount of AMD 442,385 thousand (2014: AMD 4,516 thousand) serve as collateral for other borrowings.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2015 are presented as follows:

In thousand Armenian drams	As of December 31, 2015		As of December 31, 2014	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
RA Government bonds	519,919	490,810	-	-
Total assets pledged and loans under reverse repurchase agreements	519,919	490,810	-	-

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

In thousand Armenian drams	Industry	Construction	Trading	Consumer	Mortgage	Service	Other	Total
								As of 31 December 2015
Loans	9,688,156	1,442,477	11,840,018	5,232,931	3,137,168	3,746,117	2,221,905	37,308,772
Less allowance for loan impairment	(83,881)	(77,470)	(187,440)	(70,527)	(50,824)	(78,463)	(12,118)	(560,723)
Net loans	9,604,275	1,365,007	11,652,578	5,162,404	3,086,344	3,667,654	2,209,787	36,748,049

In thousand Armenian drams								As of 31 December 2014
	Industry	Construction	Trading	Consumer	Mortgage	Service	Other	Total
Loans	9,956,727	2,879,395	11,912,900	4,417,866	2,503,332	3,566,895	2,095,753	37,332,868
Less allowance for loan impairment	(99,567)	(80,249)	(249,331)	(44,179)	(25,033)	(35,669)	(30,767)	(564,795)
Net loans	9,857,160	2,799,146	11,663,569	4,373,687	2,478,299	3,531,226	2,064,986	36,768,073

Reconciliation of allowance account for losses on loans and advances by industry sectors and the collective impairment is as follows:

In thousand Armenian drams								**As of 31 December 2015**
	Industry	**Construction**	**Trading**	**Consumer**	**Mortgage**	**Service**	**Other**	**Total**
At 1 January 2015	**99,567**	**80,249**	**249,331**	**44,179**	**25,033**	**35,669**	**30,767**	**564,795**
Charge/(reversal) for the year	**(23,924)**	**(2,779)**	**(72,950)**	**107,586**	**25,583**	**42,794**	**(18,649)**	**57,661**
Amounts (written off)/recovery	**8,238**	**-**	**11,059**	**(81,238)**	**208**	**-**	**-**	**(61,733)**
At 31 December 2015	**83,881**	**77,470**	**187,440**	**70,527**	**50,824**	**78,463**	**12,118**	**560,723**
Individual impairment	**16,759**	**69,394**	**106,101**	**19,016**	**29,398**	**53,278**	**-**	**293,946**
Collective impairment	**67,122**	**8,076**	**81,339**	**51,511**	**21,426**	**25,185**	**12,118**	**266,777**
	83,881	**77,470**	**187,440**	**70,527**	**50,824**	**78,463**	**12,118**	**560,723**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**99,297**	**288,729**	**220,231**	**81,844**	**76,309**	**148,205**	**-**	**914,615**

In thousand Armenian drams								As of 31 December 2014
	Industry	Construction	Trading	Consumer	Mortgage	Service	Other	Total
At 1 January 2014	89,037	62,898	62,033	30,100	21,055	32,165	16,503	313,791
Charge/(reversal) for the year	44,552	(36,093)	221,790	107,938	(20,558)	3,504	14,264	335,397
Net (write off)/recovery	(34,022)	53,444	(34,492)	(93,859)	24,536	-	-	(84,393)
At 31December 2014	99,567	80,249	249,331	44,179	25,033	35,669	30,767	564,795
Individual impairment	-	56,344	132,408	-	-	-	-	188,752
Collective impairment	99,567	23,905	116,923	44,179	25,033	35,669	30,767	376,043
	99,567	80,249	249,331	44,179	25,033	35,669	30,767	564,795
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	488,933	220,620	-	-	-	-	709,553

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

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Privately held companies	**25,604,353**	27,639,460
Individuals	**8,758,055**	6,896,958
Sole proprietors	**2,943,479**	2,792,391
Non-commercial institutions	**2,885**	4,059
	37,308,772	37,332,868
Less allowance for loan impairment	**(560,723)**	(564,795)
Total loans and advances to customers	**36,748,049**	36,768,073

Loans to individuals comprise the following products:

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Mortgage loans	**3,137,168**	2,503,332
Consumer loans	**2,999,633**	1,426,832
Car loans	**811,027**	1,048,100
Other	**1,810,227**	1,918,694
Total loans and advances to individuals (gross)	**8,758,055**	6,896,958

At 31 December 2015 and 2014 the estimated fair value of loans and advances to customers approximates its carrying value, as stated in Note 32.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 35. Information on related parties is disclosed in Note 31.

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

18 Securities available for sale

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
RA state bonds	**346,256**	-
Non state bonds	**99,306**	94,589
Shares of RA companies	**42,825**	42,825
Total securities available for sale	**488,387**	137,414

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 available-for-sale equities 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 by effective interest rates and maturity date comprise:

In thousand Armenian drams	As of 31 December 2015		As of 31 December 2014	
	%	Maturity	%	Maturity
RA state bonds	**10.68-14.85**	**2016-2020**	8.26-14.36	2015-2032
Non state bonds	**4.1**	**2025**	4.1	2025

Securities available for sale at fair value of AMD 7,792,893 thousand (2014: AMD 6,992,595 thousand) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as securities pledged under repurchase agreements on the face of the statement of financial position (Note 28).

19 Property, plant and equipment and intangible assets

In thousand Armenian drams	Land and buildings	Leasehold improvements	Computer equipment	Vehicles	Office equipment	Intangible assets	Total
COST OR REVALUED AMOUNT							
At January 1, 2014	2,202,578	117,589	312,666	92,693	443,325	107,584	3,276,435
Additions	83,354	298	174,722	42,174	30,185	746	331,479
Disposals	-	(298)	(13,309)	(28,638)	(70)	-	(42,315)
Revaluation	2,022,783	-	-	-	-	-	2,022,783
Adjustment to depreciation from revaluation	(566,312)	-	-	-	-	-	(566,312)
At December 31, 2014	**3,742,403**	**117,589**	**474,079**	**106,229**	**473,440**	**108,330**	**5,022,070**
Additions	**1,614**	**-**	**57,779**	**1,118**	**10,102**	**26,668**	**97,281**
Disposals	**-**	**-**	**(795)**	**-**	**-**	**-**	**(795)**
At December 31, 2015	**3,744,017**	**117,589**	**531,063**	**107,347**	**483,542**	**134,998**	**5,118,556**
ACCUMULATED DEPRECIATION	513,363	66,323	206,080	87,907	338,843	78,543	1,291,059
At January 1, 2014	55,196	12,709	48,362	8,959	33,716	8,748	167,690
Charge for the year	-	(18)	(13,309)	(28,347)	(70)	-	(41,744)
Disposals	(566,312)	-	-	-	-	-	(566,312)
At December 31, 2014	**2,247**	**79,014**	**241,133**	**68,519**	**372,489**	**87,291**	**850,693**
Charge for the year	**128,832**	**12,690**	**74,238**	**10,112**	**34,191**	**7,818**	**267,881**
Disposals	**-**	**-**	**(795)**	**-**	**-**	**-**	**(795)**
At December 31, 2015	**131,079**	**91,704**	**314,576**	**78,631**	**406,680**	**95,109**	**1,117,779**
CARRYING VALUE							
At December 31, 2015	**3,612,938**	**25,885**	**216,487**	**28,716**	**76,862**	**39,889**	**4,000,777**
At December 31, 2014	3,740,156	38,575	232,946	37,710	100,951	21,039	4,171,377
At January 1, 2014	1,689,215	51,266	106,586	4,786	104,482	29,041	1,985,376

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser on 19 December 2014 using a combination of the market, income and cost methods resulting in a revaluation of AMD 2,022,783 thousand. Management have based their estimate of the fair value of the on the results of the independent appraisal.

For the fair value hierarchy of PPE see note 32.3

Fully depreciated items

As at 31 December 2015 fixed assets and intangible assets included fully depreciated assets in amount of AMD 557,153 thousand (2014: AMD 452,610 thousand).

Restrictions on title of fixed assets and intangible assets

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

Contractual commitments

As at 31 December 2015 the Bank had no contractual commitments (2014: either).

20 Repossessed assets

Details of confiscated assets serving as collateral for loans issued by the Bank at 31 December are presented below.

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Real estate	**4,616,075**	4,627,262
Other	**24,901**	24,901
Total repossessed assets	**4,640,976**	4,652,163

At the date of confiscation the collateral is measured at the lower of the carrying amount of non repaid loan liabilities and the fair value of collateral.

It is the Bank's policy to properly and timely dispose the collateral. The Bank does not principally use non-cash collaterals for carrying out its activity. Assets are measured at the lower of carrying amount and fair value less costs to sell.

21 Other assets

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Debtors and other receivables	**32,250**	43,721
Receivables on cash transfers	**61**	32,158
	32,311	75,879
Less allowance for assets impairment	**(3,040)**	-
Total other financial assets	**29,271**	75,879
Other prepaid taxes	**-**	5,182
Materials	**15,423**	14,626
Other	**17,195**	16,904
Total other non-financial assets	**32,618**	36,712
Total other assets	**61,889**	112,591

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

In thousand Armenian drams	Total
At January 1, 2014	-
Charge for the year	26,523
Amounts written off	(28,501)
Recoveries	1,978
At December 31, 2014	-
Charge for the year	**8,976**
Amounts written off	**(8,896)**
Recoveries	**2,960**
At December 31, 2015	**3,040**

22 Amounts due to financial institutions

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Repurchase agreements with the CBA	**6,509,610**	9,808,310
Loans from financial institutions	**1,745,069**	964,348
Deposits from financial institutions	**208,521**	306,216
Current accounts of financial institutions	**203,650**	117,820
Repurchase agreements with banks and other financial institutions	**1,853,283**	45,281
Total amounts due to financial institutions	**10,520,133**	11,241,975

All deposits from financial institutions have fixed interest rates.

As of 31 December 2015 the weighted average effective interest rates on amounts due to financial institutions were 9.74% for borrowings in AMD (2014: 10.86%), and 5.56 % for loans in USD, EUR and other freely convertible currencies (2014: 5.02%).

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 customers

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Corporate customers		
Current/settlement accounts	**7,399,718**	6,856,905
Time deposits	**996,393**	578,830
	8,396,111	7,435,735
Retail customers		
Current/demand accounts	**3,628,329**	3,027,942
Time deposits	**21,096,447**	18,800,791
	24,724,776	21,828,733
Total amounts due to customers	**33,120,887**	29,264,468

As at 31 December 2015 included in amounts due to customers are deposits amounting to AMD 864,740 thousand (2014: AMD 208,620 thousand) held as security against loans to customers, letters of credit issued, guarantees issued and other transaction related contingent obligations. The fair value of those deposits approximates the carrying amount.

Concentration of customers' current accounts and deposits

As at 31 December 2015 the Bank has two groups of related customers (2014: two), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 amounts to AMD 10,108,405 thousand (2014: AMD 8,489,030 thousand).

As of 31 December 2015 the weighted average effective interest rates on amounts due to customers was 12.9% for borrowings in AMD (2014: 12.2%) and 8.4% for borrowings in USD, EUR and other freely convertible currencies (2014: 8.4%).

24 Debt securities issued

Debt securities in the amount of 10,000 thousand EUR were issued in 2014, at an annual interest rate of 5.5% and maturity of up to 5 years.

The securities issued in 2014 have been fully repaid and new subordinated interest bonds have been issued (See Note 26).

The Bank's issued interest-bearing bonds are not intended for circulation in secondary market.

25 Other borrowings

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Loans from RA Government	493,680	740,557
Total other borrowings	493,680	740,557

Loans from the RA Government include loans received within the frames of "Small and Medium Loaning program" and "Economy stabilization project" of the German Armenian fund.

The weighted average effective interest rate of the attracted loan was 9.2% at 31 December 2015 (2014: 9.2%).

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

26 Subordinate debts

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Subordinate debt from the CBA	3,106,286	3,613,413
Bonds issued	5,306,737	-
Total other borrowings	8,413,023	3,613,413

The debt provided by the CBA is subordinated debt issued in 2011 in the amount of AMD 3,600,000 thousand at 8% per annum with contractual maturity up to 31 December 2016.

During 2015 10,000 subordinated coupon bonds have been issued with nominal value of Euro 1000, 5,5% of interest rate and maturity of 5,1-5,9 years.

27 Other liabilities

In thousand Armenian drams	As of 31 December 2015	As of 31 December 2014
Due to personnel	66,602	75,304
Accounts payables	98,583	26,560
Total other financial liabilities	165,185	101,864
Tax payable, other than income tax	81,704	107,065
Grants related to assets	53,928	56,002
Other	2,295	23,157
Total other non financial liabilities	137,927	186,224
Total other liabilities	303,112	288,088

Grants related to assets

In thousand Armenian drams	2015	2014
At January 1	**56,002**	58,076
Recognition of income (Note 9)	**(2,074)**	(2,074)
At December 31	**53,928**	56,002

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	As of 31 December 2015	As of 31 December 2014	**As of 31 December 2015**	As of 31 December 2014
Investments available for sale (Note 15,18, 22)	**8,587,674**	10,098,647	**8,362,893**	9,853,591
Total securities pledged under repurchase agreements	**8,587,674**	10,098,647	**8,362,893**	9,853,591

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

29 Equity

As at 31 December 2015 the Bank's registered and paid-in charter capital was AMD 14,400,000 thousand.

The respective participants as at 31 December 2015 and 2014 may be specified as follows:

In thousand Armenian drams

	Paid-in charter capital	% of total paid-in capital
"ZakNefteGazStroy Prometey" OJSC	**6,642,000**	**46.125**
Vazgen Gevorgyan	**561,600**	**3.9**
"Prometey City" LLC	**7,196,400**	**49.975**
	14,400,000	**100**

During 2015 the Bank has not paid dividends. In 2014 dividends paid by the Bank for 2013 results amounted to AMD 895,000 thousand.

Distributable among participants 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 5 % of the Bank's charter 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	**As of 31 December 2015**	As of 31 December 2014
Undrawn loan commitments	**670,412**	828,870
Guarantees	**861,757**	118,597
Total commitments and contingent liabilities	**1,532,169**	947,467

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 office equipment, central office and branch facilities.

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

In thousand Armenian drams	**As of 31 December 2015**	As of 31 December 2014
Not later than 1 year	**94,950**	103,384
Later than 1 year and not later than 5 years	**175,001**	219,890
Later than 5 years	**30,450**	43,050
Total operating lease commitments	**300,401**	366,324

Capital commitments
Information on capital commitments is disclosed in Notes 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. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 Transactions with related parties

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

The ultimate participant of the Bank is Vazgen Gevorgyan, who is related with other shareholders of the Bank.

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	
	Participants and parties related with them	**Key management personnel and parties related with them**	Participants and parties related with them	Key management personnel and parties related with them
STATEMENT OF FINANCIAL POSITION				
Loans and advances to customers				
Loans outstanding at January 1	**347,555**	**326,695**	157,372	285,301
Loans issued during the year	**261,675**	**921,398**	271,926	745,449
Loan repayments during the year	**(457,555)**	**(884,182)**	(81,743)	(704,055)
Loans outstanding at December 31	**151,675**	**363,911**	347,555	326,695
Less: allowance for loan impairment	**(1,062)**	**(2,547)**	(3,476)	(3,267)
Loans outstanding at December 31	**150,613**	**361,364**	344,079	323,428
Amounts due to customers				
Deposits at January 1	**1,127,954**	**986,060**	527,166	779,438
Deposits received during the year	**1,910,380**	**4,290,276**	2,549,432	2,984,725
Deposits repaid during the year	**(1,887,697)**	**(4,245,042)**	(1,948,644)	(2,778,103)
Deposits at December 31	**1,150,637**	**1,031,294**	1,127,954	986,060
Statement of profit or loss and other comprehensive income				
Interest income on loans	**25,165**	**34,190**	21,235	31,065
Impairment (charge)/reversal	**2,414**	**720**	(1,902)	(414)
Interest expense on deposits	**(100,350)**	**(81,697)**	(70,620)	(79,995)
Commission income	**1,037**	**1,730**	699	1,039
Other income	**1,738**	**1,711**	2,262	1,255
Other operating expenses	**(1,692)**	**(2,162)**	(470)	(268)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and other bonuses	**264,562**	393,487
Total key management compensation	**264,562**	393,487

The loans issued to parties related with the Bank are repayable over 1-15 years and have effective interest rates of 10.10-26.83% (2014: 5.83-24.36%).

32 Fair value measurement

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

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2015				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	-	14,559,127	-	14,559,127	14,559,127
Amounts due from other financial institutions	-	8,923,705	-	8,923,705	8,923,705
Loans and advances to customers	-	36,748,049	-	36,748,049	36,748,049
Other assets	-	29,271	-	29,271	29,271
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	10,520,133	-	10,520,133	10,520,133
Amounts due to customers	-	33,120,887	-	33,120,887	33,120,887
Subordinated debts	-	8,413,023	-	8,413,023	8,413,023
Other borrowings	-	493,680	-	493,680	493,680
Other liabilities	-	165,185	-	165,185	165,185

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	-	15,895,791	-	15,895,791	15,895,791
Amounts due from financial institutions	-	5,805,918	-	5,805,918	5,805,918
Loans and advances to customers	-	36,768,073	-	36,768,073	36,768,073
Other assets	-	75,879	-	75,879	75,879
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	11,241,975	-	11,241,975	11,241,975
Amounts due to customers	-	29,264,468	-	29,264,468	29,264,468
Issued debt securities	-	5,908,602	-	5,908,602	5,908,602
Subordinated debt	-	3,613,413	-	3,613,413	3,613,413
Other borrowings	-	740,557	-	740,557	740,557
Other liabilities	-	101,864	-	101,864	101,864

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 7% to 24% per annum (2014: 7.5% to 22% 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 financial institutions and customers

The fair value of deposits from financial institutions and 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.

Issued securities, other borrowings

The fair value of borrowings with fixed and unquoted interest rates is set based on the calculation of future cash flows, which are discounted applying the rates that are offered new debt instruments of similar maturities and terms.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of 31 December 2015			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Available for sale investments	99,306	346,256	-	445,562
Securities pledged under repurchase agreements	-	8,587,674	-	8,587,674
Total	99,306	8,933,930	-	9,033,236
FINANCIAL LIABILITIES				
Trading financial liabilities	-	794,781	-	794,781
Total	-	794,781	-	794,781
NET FAIR VALUE	99,306	8,139,149	-	7,892,199

In thousand Armenian drams	As of 31 December 2014			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Securities available for sale	94,589	-	-	94,589
Securities pledged under repurchase agreements	-	10,098,647	-	10,098,647
Derivative financial liabilities	-	27,026	-	27,026
Total	94,589	10,125,673	-	10,220,262
FINANCIAL LIABILITIES				
Trading financial liabilities	-	3,106,052	-	3,106,052
Total	-	3,106,052	-	3,106,052
NET FAIR VALUE	94,589	7,019,621	-	7,114,210

There have been no transfers between levels 1 and 2 in the reporting period.

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

Listed equity investments.
Listed bonds have been issued by publicly traded companies in Russia.

Unlisted equity investments.
The fair value of Bank's investment in "ArCa" and "ACRA" unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment.

Derivatives

Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date.

Normally, the derivatives entered into by the Bank are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg. market exchange rates. Most derivatives entered into by the Bank are included in Level 2.

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	As of 31 December 2015			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	3,744,017	3,744,017
Total	-	-	3,744,017	3,744,017

In thousand Armenian drams	As of 31 December 2014			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Land and buildings	-	-	3,742,403	3,742,403
Total	-	-	3,742,403	3,742,403

Fair value measurements in Level 3

The Bank's non financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial assets and financial liabilities within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2014	2,202,578	2,202,578
Adjustment to depreciation due to revaluation	(566,312)	(566,312)
Gains recognised in other comprehensive income	2,022,783	2,022,783
Purchases	83,354	83,354
Balance as at 31 December, 2014	3,742,403	3,742,403
Purchases	1,614	1,614
Balance as at 31 December, 2015	3,744,017	3,744,017

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The land and building owned by the Bank were evaluated by an independent appraiser on 19 December 2014 using a combination of the market, income and cost methods.

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**	
				Related amounts, which were not offset in the statement of financial position	
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	Net
FINANCIAL ASSETS					
Amounts due from other financial institutions (note 15)	**5,351,696**	**-**	**5,351,696**	**5,536,265**	**(184,569)**
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Net
FINANCIAL LIABILITIES					
Amounts due to financial institutions (Note 28)	**8,362,893**	**-**	**8,362,893**	**8,587,674**	**(224,781)**

In thousand Armenian drams				As of December 31, 2014	
				Related amounts, which were not offset in the statement of financial position	
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	Net
FINANCIAL ASSETS					
Amounts due from other financial institutions (note 15)	3,706,100	-	3,706,100	4,039,019	(332,919)
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Net
FINANCIAL LIABILITIES					
Amounts due to financial institutions (Note 28)	9,853,591	-	9,853,591	10,098,647	(245,056)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position and disclosed in the above tables are measured in the statement of financial position on the following basis:

- repurchase agreements, securities lending and borrowing are measured at amortised cost

34 Maturity analysis of assets and liabilities

The table below shows an analysis of 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	14,559,127	-	-	*14,559,127*	-	-	-	14,559,127
Amounts due from other financial institutions	6,714,218	1,231,845	252,959	*8,199,022*	347,121	377,562	*724,683*	8,923,705
Loans and advances to customers	3,056,080	1,815,674	6,853,685	*11,725,439*	19,237,972	5,784,638	*25,022,610*	36,748,049
Investments available for sale	-	95,435	4,197	*99,632*	250,050	138,705	*388,755*	488,387
Securities pledged under repurchase agreements	794,781	142,063	88,042	*1,024,886*	6,509,626	1,053,162	*7,562,788*	8,587,674
Other assets	29,271	-	-	*29,271*	-	-	-	29,271
	25,153,477	3,285,017	7,198,883	*35,637,377*	26,344,769	7,354,067	*33,698,836*	69,336,213
LIABILITIES								
Amounts due to financial institutions	9,955,244	7,775	197,756	*10,160,775*	165,376	193,982	*359,358*	10,520,133
Trading financial liabilities	794,781	-	-	*794,781*	-	-	-	794,781
Amounts due to customers	12,714,207	1,563,670	11,715,058	*25,992,935*	7,126,984	968	*7,127,952*	33,120,887
Subordinate debts	278,747	919,837	1,927,539	3,126,123	5,286,900	-	*5,286,900*	8,413,023
Other borrowings	-	-	247,633	*247,633*	246,047	-	*246,047*	493,680
Other liabilities	91,964	73,221	-	*165,185*	-	-	-	165,185
	23,834,943	2,564,503	14,087,986	*40,487,432*	12,825,307	194,950	*13,020,257*	53,507,689
Net position	1,318,534	720,514	(6,889,103)	*(4,850,055)*	13,519,462	7,159,117	*20,678,579*	15,828,524
Accumulated gap	1,318,534	2,039,048	(4,850,055)		8,669,407	15,828,524		

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	15,895,791	-	-	*15,895,791*	-	-	-	15,895,791
Amounts due from other financial institutions	3,683,917	949,940	351,207	*4,985,064*	500,000	320,854	*820,854*	5,805,918
Derivative financial assets	27,026	-	-	*27,026*	-	-	-	27,026
Loans and advances to customers	579,821	1,696,415	7,649,879	*9,926,115*	19,829,182	7,012,776	*26,841,958*	36,768,073
Investments available for sale	-	3,752	-	*3,752*	-	133,662	*133,662*	137,414
Securities pledged under repurchase agreements	3,106,052	255,419	839,137	*4,200,608*	5,746,656	151,383	*5,898,039*	10,098,647
Other assets	75,879	-	-	*75,879*	-	-	-	75,879
	23,368,486	2,905,526	8,840,223	35,114,235	26,075,838	7,618,675	33,694,513	68,808,748
LIABILITIES								
Amounts due to financial institutions	9,978,485	959,754	299,754	*11,237,993*	3,982	-	*3,982*	11,241,975
Trading financial liabilities	3,106,052	-	-	*3,106,052*	-	-	-	3,106,052
Amounts due to customers	10,363,916	1,284,278	12,277,587	*23,925,781*	5,338,687	-	*5,338,687*	29,264,468
Debt securities issued	35,893	-	98,009	*133,902*	5,774,700	-	*5,774,700*	5,908,602
Subordinate debt	13,413	-	-	*13,413*	3,600,000	-	*3,600,000*	3,613,413
Other borrowings	2,427	-	246,037	*248,464*	492,093	-	*492,093*	740,557
Other liabilities	101,864	-	-	*101,864*	-	-	-	101,864
	23,602,050	2,244,032	12,921,387	38,767,469	15,209,462	-	15,209,462	53,976,931
Net position	(233,564)	661,494	(4,081,164)	*(3,653,234)*	10,866,376	7,618,675	*18,485,051*	14,831,817
Accumulated gap	(233,564)	427,930	(3,653,234)		7,213,142	14,831,817		

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. 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 and the Management Board are 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 Board

The Management Board is responsible for implementation, realization and control of processes, which are connected with risk management.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of the Bank and the Management Board.

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, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

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 Board of the Bank and the Management Board. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place by maturity. The Management receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the members of the Management Board, which includes Bank normative, current balance of the Bank, daily change in income and expenses and changes in off-balance sheet articles.

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 a 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 and Management Board.

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

35.1.1 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	Armenia	Non-OECD countries	OECD countries	Total
Cash and cash equivalents	14,017,267	200,862	340,998	14,559,127
Amounts due from other financial institutions	8,561,834	361,871	-	8,923,705
Loans and advances to customers	36,743,828	4,221	-	36,748,049
Investments available for sale	389,081	99,306	-	488,387
Securities pledged under repurchase agreements	8,587,674	-	-	8,587,674
Other assets	29,271	-	-	29,271
As at 31 December 2015	**68,328,955**	**666,260**	**340,998**	**69,336,213**
As at 31 December 2014	67,729,495	729,716	349,537	68,808,748

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

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, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. It is common practice to take collateral for extended funs. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, other fixed assets, inventory;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

In thousand Armenian drams	2015	2014
Loans collateralized by real estate	**25,640,491**	27,335,217
Loans collateralized by materials	**5,300,299**	4,407,037
Loans collateralized by movable property	**2,260,867**	1,731,798
Loans collateralized by cash	**1,635,633**	1,840,349
Loans collateralized by guarantees	**1,036,157**	780,533
Loans collateralized by gold	**465,256**	468,798
Loans collateralized by RA state bonds	**490,810**	-
Loans collateralized by shares of other companies	**67,109**	439,671
Loans collateralized by deposits	**277,857**	208,620
Other collateral	**134,293**	120,845
Total loans and advances to customers (gross)	**37,308,772**	37,332,868

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. In this case, the possible amount of loss, that the Bank may bear, equals to the unused portions of loans.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

35.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer loans) 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		
Manufacturing	**0.1%**	0.1%
Trade	**0.1%**	0.2%
Consumer	**1.3%**	0.8%
Mortgage	**0.1%**	0.1%
Service	**-**	0.1%
Other	**1.0%**	2.2%

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					
Manufacturing	12,670	-	14,130	20,768	47,568
Construction	-	-	-	389,858	389,858
Trade	30,501	251,414	-	319,416	601,331
Consumer	11,901	18,257	23,710	56,654	110,522
Mortgage	-	10,379	15,075	27,148	52,602
Service	-	28,354	26,943	1,426,847	1,482,144
Other	-	-	-	3,269	3,269
Total	55,072	308,404	79,858	2,243,960	2,687,294

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					
Manufacturing	-	23,653	-	-	23,653
Construction	-	-	-	280,824	280,824
Trade	57,812	-	3,267	198,378	259,457
Consumer	40,866	15,024	11,589	60,412	127,891
Mortgage	22,456	12,615	-	-	35,071
Service	-	6,276	-	-	6,276
Other	846	-	-	-	846
Total	121,980	57,568	14,856	539,614	734,018

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

35.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of the Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the statement of profit or loss and 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. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets 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 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	**+1**	**-**	**(160)**	**-**	**(140,650)**	**(37,368)**	**(178,178)**
EUR	**+10**	**-**	**-**	**-**	**-**	**9,931**	**9,931**
AMD	**(1)**	**-**	**161**		**144,812**	**39,180**	**184,153**
EUR	**(10)**	**-**	**-**	**-**	**-**	**(9,931)**	**(9,931)**

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	+1	-	(1,753)	(1,537)	(147,781)	(157,970)	(309,041)
EUR	+10	-	-	-	-	9,459	9,459
AMD	(1)	-	1,753	1,537	147,781	157,970	309,041
EUR	(10)	-	-	-	-	(9,459)	(9,459)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of the Bank has set limits on positions by currency. Positions are monitored on a daily basis. The tables below indicate the currencies to which the Bank had significant exposure at 31 December 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). 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	14,641	+5	(37,411)
EUR	+5	(2,179)	+5	(3,665)

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

				2015
In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	6,527,657	7,561,379	470,091	14,559,127
Amounts due from other financial institutions	6,167,074	2,684,615	72,016	8,923,705
Loans and advances to customers	11,184,659	25,563,390	-	36,748,049
Investments available for sale	389,081	99,306	-	488,387
Securities pledged under repurchase agreements	8,587,674	-	-	8,587,674
Other assets	26,861	2,410	-	29,271
	32,883,006	35,911,100	542,107	69,336,213
LIABILITIES				
Amounts due to financial institutions	10,240,336	279,794	3	10,520,133
Amounts due to customers	2,557,938	30,007,447	555,502	33,120,887
Trading financial liabilities	794,781	-	-	794,781
Subordinate debts	3,106,286	5,306,737	-	8,413,023
Other borrowings	493,680	-	-	493,680
Other liabilities	94,701	69,887	597	165,185
	17,287,722	35,663,865	556,102	53,507,689
Net position as at 31 December 2015	15,595,284	247,235	(13,995)	15,828,524
Commitments and contingent liabilities as at 31 December 2015	1,060,890	471,279	-	1,532,169
Total financial assets	35,842,518	31,959,959	979,245	68,781,722
Total financial liabilities	19,322,604	33,667,000	987,327	53,976,931
Total effect of derivative financial instruments	-	921,442	(894,416)	27,026
Net position as at 31 December 2014	16,519,914	(785,599)	(902,498)	14,831,817
Commitments and contingent liabilities as at 31 December 2014	364,516	569,147	13,804	947,467

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

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

	Not audited	
As at 31 December, these ratios were as follows:	**2015,%**	2014,%
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**28.60**	28.79
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**173.34**	181.58

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 financial institutions	**9,956,179**	**12,715**	**231,730**	**280,946**	**230,930**	**10,712,500**
Trading financial liabilities	**794,781**	**-**	**-**	**-**	**-**	**794,781**
Amounts due to customers	**12,837,411**	**1,636,235**	**12,426,636**	**7,626,188**	**1,042**	**34,527,512**
Subordinate debts	**288,263**	**1,026,610**	**2,180,851**	**6,334,503**	**-**	**9,830,227**
Other borrowings	**-**	**-**	**277,974**	**257,018**	**-**	**534,992**
Other liabilities	**91,964**	**73,221**	**-**	**-**	**-**	**165,185**
Total undiscounted non-derivative financial liabilities	**23,968,598**	**2,748,781**	**15,117,191**	**14,498,655**	**231,972**	**56,565,197**
Credit risk related commitments	**672,400**	**27,500**	**689,116**	**143,153**	**-**	**1,532,169**

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	Total
NON-DERIVATIVE FINANCIAL LIABILITIES					
Amounts due to financial institutions	10,047,266	964,440	326,145	5,213	11,343,064
Trading financial instruments	3,106,052	-	-	-	3,106,052
Amounts due to customers	10,498,317	1,531,032	12,988,691	5,598,430	30,616,470
Debt securities issued	40,461	39,157	235,331	6,975,086	7,290,035
Subordinate debt	13,413	-	-	4,026,959	4,040,372
Other borrowings	2,427	-	254,733	570,381	827,541
Other liabilities	101,864	-	-	-	101,864
Total undiscounted non-derivative financial liabilities	23,809,800	2,534,629	13,804,900	17,176,069	57,325,398
Credit risk related commitments	10,466	92,540	335,286	509,175	947,467
DERIVATIVE FINANCIAL LIABILITIES					
Foreign exchange spot transactions					
Inflow	921,442	-	-	-	921,442
Outflow	894,416	-	-	-	894,416

35.4 Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Risk Management department, Board of the Bank and Management 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 of the Bank.

36 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established 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, polices 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 charter capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and subordinated debt.

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

As of 31 December 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	**17,240,699**	17,066,878
Tier 2 capital	**5,825,272**	1,410,119
Total regulatory capital	**23,065,971**	18,476,997
Risk-weighted assets	**66,243,454**	63,713,783
Capital adequacy ratio	**34.82%**	29%

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

The Central Bank of Armenia has set the minimal required total capital at AMD 30,000,000 thousand as of 1 January 2017.

To reach the requirement of the Central Bank of Armenia on the minimum size of the Total regulatory capital the Bank's charter capital and other elements of the regulatory capital.