Grant Thornton

Financial Statements and Independent Auditor's Report

UNIBANK open joint stock company

31 December 2015

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Independent auditor's report

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To the Shareholder and Board of Directors of Open Joint Stock Company "UNIBANK":

We have audited the accompanying financial statements of "UNIBANK" open joint stock company (the "Bank"), which comprise the statement of financial position as at December 31, 2015, and the statement of 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 notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 Bank'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 Bank'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 the "UNIBANK" open joint stock company as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to note 34 to the financial statements. Financial statements of the Bank have been prepared based on the Bank's going concern principle. In 2014 the Board of RA Central Bank decided to determine the minimum size of total capital AMD 30,000,000 thousand as of January 1, 2017 and after that period. The shareholders and management of the Bank assure that the Bank will ensure the implementation of the mentioned requirement through the replenishment of equity. Our opinion is not qualified due to this matter.

Gagik Gyulbudaghyan
Managing partner

Zaruhi Gharibyan
Audit Manager

Grant Thornton CJSC
April 8, 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	**19,714,397**	19,316,864
Interest and similar expense	6	**(13,431,362)**	(12,025,942)
Net interest income		**6,283,035**	7,290,922
Fee and commission income	7	**1,334,902**	1,455,759
Fee and commission expense	7	**(257,701)**	(287,433)
Net fee and commission income		**1,077,201**	1,168,326
Net trading income	8	**677,989**	746,151
Net loss from investments available-for-sale		**-**	(855)
Other income	9	**1,383,757**	1,645,630
Impairment charge	10	**(2,398,395)**	(4,106,633)
Staff costs	11	**(3,070,810)**	(3,272,711)
Depreciation of property and equipment	19	**(412,952)**	(377,221)
Amortization of intangible assets	20	**(80,796)**	(73,084)
Other expenses	12	**(2,912,720)**	(2,393,969)
Profit before income tax		**546,309**	626,556
Income tax expense	13	**(187,828)**	(94,081)
Profit for the year		**358,481**	532,475
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**45,782**	-
Income tax relating to items not reclassified		**(9,157)**	-
		36,625	-
Items that will be reclassified subsequently to profit or loss			
Net unrealized loss from changes in fair value from available-for-sale financial assets		**(468,167)**	(578,132)
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments		**-**	871
Income tax relating to items that will be reclassified		**93,633**	115,452
		(374,534)	(461,809)
Other comprehensive income for the year, net of tax		**(337,909)**	(461,809)
Total comprehensive income for the year		**20,572**	70,666
Earnings per share	14	**0.00157**	**-**

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

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Cash and cash equivalents	15	**26,012,823**	34,036,384
Amounts due from other financial institutions	16	**1,245,854**	882,221
Loans and advances to customers	17	**110,181,548**	118,960,394
Investments available for sale	18	**4,411,861**	31,923
Securities pledged under repurchase agreements	26	**4,136,760**	4,984,447
Property, plant and equipment	19	**5,165,342**	5,142,456
Intangible assets	20	**1,314,048**	1,254,782
Prepaid income taxes		**284,081**	382,262
Other assets	21	**5,387,543**	4,583,677
TOTAL ASSETS		**158,139,860**	170,258,546
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	22	**22,255,512**	32,567,529
Amounts due to customers	23	**104,170,724**	102,069,829
Borrowings	24	**7,511,491**	13,341,038
Deferred income tax liabilities	13	**731,041**	725,839
Other liabilities	25	**762,000**	1,117,462
Total liabilities		**135,430,768**	149,821,697
Equity			
Share capital	27	**14,167,947**	13,100,700
Share premium		**1,387,422**	-
Statutory general reserve		**421,851**	370,137
Other reserves		**(492,684)**	(154,775)
Retained earnings		**7,224,556**	7,120,787
Total equity		**22,709,092**	20,436,849
TOTAL LIABILITIES AND EQUITY		**158,139,860**	170,258,546

The financial statements from pages 3 to 52 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 8 April, 2016.

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

Vardan ATAYAN
Chairman of Executive Board

Gohar GRIGORYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2014	13,100,700	-	370,137	(77,377)	384,411	6,972,432	20,750,303
Dividends to shareholders	-	-	-	-	-	(384,120)	(384,120)
Transactions with owners	-	-	-	-	-	(384,120)	(384,120)
Profit for the year	-	-	-	-	-	532,475	532,475
Other comprehensive income:							
Revaluation of PPE	-	-	-	-	(52,148)	-	(52,148)
Net unrealized loss from changes in fair value	-	-	-	(578,132)	-	-	(578,132)
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments	-	-		871	-	-	871
Income tax relating to components of other comprehensive income	-	-	-	115,452	-	-	115,452
Total comprehensive income for the year	-	-	-	(461,809)	-	532,475	70,666
Balance as of December 31, 2014	13,100,700	-	370,137	(539,186)	384,411	7,120,787	20,436,849
Increase in share capital	**1,067,247**	**1,387,422**	**-**	**-**	**-**	**-**	**2,454,669**
Distribution to reserve	**-**	**-**	**51,714**	**-**	**-**	**(51,714)**	**-**
Dividends to shareholders	**-**		**-**	**-**	**-**	**(202,998)**	**(202,998)**
Transactions with owners	**1,067,247**	**1,387,422**	**51,714**	**-**	**-**	**(254,712)**	**2,251,671**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**358,481**	**358,481**
Other comprehensive income:							
Revaluation of PPE	**-**	**-**	**-**	**-**	**45,782**	**-**	**45,782**
Net unrealized loss from changes in fair value	**-**	**-**	**-**	**(468,167)**	**-**	**-**	**(468,167)**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**93,633**	**(9,157)**	**-**	**84,476**
Total comprehensive income for the year	**-**	**-**	**-**	**(374,534)**	**36,625**	**358,481**	**20,572**
Balance as of December 31, 2015	**14,167,947**	**1,387,422**	**421,851**	**(913,720)**	**421,036**	**7,224,556**	**22,709,092**

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	**546,309**	626,556
Adjustments for		
Impairment charge	**2,398,395**	4,106,633
Impairment and loss on sale of repossessed assets	**223,174**	30,643
Reversal of impairment of PPE	**(103,881)**	-
Amortization and depreciation allowances	**493,748**	450,305
Loss from sale of PPE	**17,021**	15,763
Interest receivable	**(2,280,884)**	1,252,651
Interest payable	**495,761**	(118,376)
Foreign currency translation net gain of non-trading assets and liabilities	**(179,415)**	(790,847)
Cash flows from operating activities before changes in operating assets and liabilities	**1,610,228**	5,573,328
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**(320,892)**	490,042
Loans and advances to customers	**9,379,240**	3,741,696
Other assets	**(623,137)**	(713,108)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(826,458)**	912,909
Amounts due to customers	**1,490,851**	(10,366,793)
Other liabilities	**(62,136)**	115,695
Net cash flow used in operating activities before income tax	**10,647,696**	(246,231)
Income tax paid	**31**	(96,056)
Net cash from/(used) in operating activities	**10,647,727**	(342,287)
Cash flows from investing activities		
Purchase of investment securities	**(3,938,810)**	(175,093)
Purchase of property and equipment	**(375,118)**	(1,284,858)
Proceeds from sale of property and equipment	**71,922**	45,973
Purchase of intangible assets	**(140,062)**	(382,650)
Net cash used in investing activities	**(4,382,068)**	(1,796,628)
Cash flow from financing activities		
Proceeds from issue of share capital	**2,454,669**	-
Dividends paid	**(500,321)**	(47,621)
Loans received from/(repaid to) financial institutions	**(9,654,080)**	27,344,275
Repayment of other long-term loans and advances	**(6,292,311)**	(14,240,248)
Net cash from/(used in) financing activities	**(13,992,043)**	13,056,406
Net increase/(decrease) in cash and cash equivalents	**(7,726,384)**	10,917,491
Cash and cash equivalents at the beginning of the year	**34,036,384**	21,118,118
Exchange differences on cash and cash equivalents	**(297,177)**	2,000,775
Cash and cash equivalents at the end of the year (Note 15)	**26,012,823**	34,036,384

Supplementary information:

Interest received	**17,765,762**	20,569,515
Interest paid	**(12,935,601)**	(12,144,318)

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

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

On 23 June 2015 according to the Bank's license registered under number 0373, "UNIBANK" CJSC was reorganized to "UNIBANK" OJSC issuing 14,500,000 shares.

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, Visa International payment systems.

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

Its main office is in Yerevan and it has 25 branches in Yerevan, 18 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh Republic and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

The international rating agency Moody's Investors Service approved the Bank's deposit attraction B2/NP rating, b3 base credit rating, B1(cr)/NP(cr) counterparty risk rating. Forecasts on all ratings remained unchanged, stable.

2 Armenian business environment

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of 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 Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

New standards and amendments adopted for the first time for annual periods beginning on or after 1 January 2015 are not applicable for the Bank. None of the amendments to Standards that are effective from that date had a significant effect on the Bank's financial statements.

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

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

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

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

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

- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale of Contribution of Assets between an Investor and its Associate or its Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting 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 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 Euro	**528.69**	577.47
AMD/1 Rub	**6.62**	8.15

4.3 Taxation

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

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

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

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

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

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

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

The Bank classified its financial assets into the following categories:

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

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. 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.

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

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

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

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

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

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 income statement 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 equity 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 income. However, interest calculated using the effective interest method is recognised in the statement of 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 reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Bank assesses at each reporting 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 amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income.

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate statement of financial position 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 on 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.

4.11 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 on 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 on 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".

4.12 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 on a straight-line basis over the lease term and included in other operating expenses.

4.13 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. The Bank's buildings are stated 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.

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	60	1.67
Computers	5	20
Communication	5	20
Vehicles	7	14.3
ATM	10	10
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.

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.

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 income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of 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.

4.14 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 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.15 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.

4.16 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 settling any financial obligation arising as a result of the guarantee.

4.18 Share capital

Share capital

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

Share premium

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

Dividends for preference shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting 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 reserve

The property revaluation reserve 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.

4.19 Offsetting

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

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

4.20 Segment reporting

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair 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 30).

Classification of investment securities

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

Useful Life of PPE

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

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. (see note 29).

Impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. 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 28.

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

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	**17,812,124**	17,645,652
Debt investment securities available-for-sale	**910,778**	744,265
Amounts due to financial institutions	**39,957**	126,281
Interest accrued on impaired financial assets	**951,323**	800,666
Factoring	**215**	-
Total interest and similar income	**19,714,397**	19,316,864

Amounts due to customers	**9,738,417**	8,504,548
Amounts due to financial institutions	**1,431,835**	1,142,623
Government loans	**47,348**	144,622
Repurchase transactions	**599,890**	60,419
Borrowings	**1,613,872**	2,155,651
Other interest expenses	**-**	18,079
Total interest and similar expense	**13,431,362**	12,025,942

7 Fee and commission income and expense

In thousand Armenian drams	2015	2014
Cash collection	**892,244**	991,500
Plastic cards operations	**189,909**	217,349
Guarantees and letters of credit	**45,133**	16,455
Foreign currency translation operations	**88,545**	133,279
Other fees and commissions	**119,071**	97,176
Total fee and commission income	**1,334,902**	1,455,759

In thousand Armenian drams	2015	2014
Wire transfer fees	**81,943**	54,257
Plastic cards operations	**143,726**	171,516
Foreign currency translation operations	**4,466**	13,014
Stock exchange services	**9,493**	10,333
Other expenses	**18,073**	38,313
Total fee and commission expense	**257,701**	287,433

8 Net trading income

In thousand Armenian drams	2015	2014
Gains less losses from transactions in foreign currencies	**724,110**	1,152,637
Gains less losses from derivatives	**(46,121)**	(406,486)
Total net trading income	**677,989**	746,151

9 Other income

In thousand Armenian drams	2015	2014
Fines and penalties received	**1,054,899**	826,476
Foreign currency translation net gains of non-trading assets and liabilities	**179,415**	790,847
Gains from operations of precious metals	**-**	10,069
Reversal of impairment of PPE	**120,003**	-
Other income	**29,440**	18,238
Total other income	**1,383,757**	1,645,630

10 Impairment charge

In thousand Armenian drams	2015	2014
Loans and advances to customers (Note 17)	**2,392,158**	4,103,318
Other assets (Note 21)	**6,237**	3,315
Total impairment charge	**2,398,395**	4,106,633

11 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	**3,069,378**	3,269,189
Staff training and other costs	**1,432**	3,522
Total staff costs	**3,070,810**	3,272,711

12 Other expenses

In thousand Armenian drams	2015	2014
Fixed assets maintenance	**271,418**	266,970
Advertising costs	**299,572**	186,863
Business trip expenses	**13,906**	15,344
Communications	**127,837**	126,442
Operating lease	**771,161**	768,363
Taxes, other than income tax, duties	**352,712**	300,399
Consulting and other services	**192,044**	60,467
Security	**58,654**	113,827
Representative expenses	**51,140**	37,773
Office supplies	**68,407**	80,476
Penalties paid	**1,550**	1,740
Operations with precious metals	**4,592**	-
Deposit insurance	**179,348**	175,151
Computer software maintenance	**41,001**	35,200
Cash collection services	**69,336**	71,807
Loss on impairment of PPE	**16,122**	-
Loss on disposal of PPE	**17,021**	15,763
Loss on impairment of repossessed collaterals	**183,065**	-
Loss on disposal of repossessed collaterals	**40,109**	30,643
Other expenses	**153,725**	106,741
Total other expense	**2,912,720**	2,393,969

13 Income tax expense

In thousand Armenian drams	2015	2014
Current tax expense	**98,150**	128,422
Deferred tax	**89,678**	(34,341)
Total income tax expense	**187,828**	94,081

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	**546,309**		626,556	
Income tax at the rate of 20%	**109,262**	**20**	125,311	20
Non-taxable income	**(24,001)**	**(4)**	(22,530)	(4)
Other taxable income	**1,777**	**-**	21,073	3
Non-deductible expenses	**126,531**	**23**	49,113	8
Gains less losses from derivatives	**9,224**	**1**	81,297	13
Foreign exchange gains	**(34,965)**	**(6)**	(160,183)	(26)
Income tax expense	**187,828**	**34**	94,081	14

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2014**	**Recognized in profit or loss**	**Recognized in equity**	**As of December 31, 2015**
Other liabilities	**63,388**	**(11,305)**	**-**	**52,083**
Securities available for sale	**135,932**	**-**	**93,633**	**229,565**
Other assets	**-**	**36,613**	**-**	**36,613**
Total deferred tax assets	**199,320**	**25,308**	**93,633**	**318,261**
Contingent liabilities	**(20,665)**	**(1,977)**	**-**	**(22,642)**
Amounts due from other financial institutions	**(8,360)**	**1,330**	**-**	**(7,030)**
Loans and advances to customers	**(806,744)**	**(115,542)**	**-**	**(922,286)**
PPE	**(89,390)**	**1,203**	**(9,157)**	**(97,344)**
Total deferred tax liability	**(925,159)**	**(114,986)**	**(9,157)**	**(1,049,302)**
Net deferred tax liability	**(725,839)**	**(89,678)**	**84,476**	**(731,041)**

In thousand Armenian drams	As of December 31, 2013	Recognized in profit or loss	Recognized in equity	As of December 31, 2014
Other liabilities	56,306	7,082	-	63,388
Securities available for sale	20,480	-	115,452	135,932
Carried forward tax losses	145,221	(145,221)	-	-
Total deferred tax assets	222,007	(138,139)	115,452	199,320
Contingent liabilities	(24,913)	4,248	-	(20,665)
Amounts due from other financial institutions	(8,450)	90	-	(8,360)
Loans and advances to customers	(972,483)	165,739	-	(806,744)
PPE	(91,793)	2,403	-	(89,390)
Total deferred tax liability	(1,097,639)	172,480	-	(925,159)
Net deferred tax liability	(875,632)	34,341	115,452	(725,839)

14 Earnings per share

In thousand Armenian drams	**2015**
Profit for the year	**358,481**
Dividends on preferred shares	**(202,998)**
Income less dividends on preferred shares	**155,483**
Weighted average number of ordinary shares	**99,163,757**
Earnings per share – basic	**0.00157**

15 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Cash on hand	**7,147,554**	6,775,432
Correspondent account with the CBA	**15,849,237**	23,802,559
Placements with other banks	**3,016,032**	3,458,393
Total cash and cash equivalents	**26,012,823**	34,036,384

As at 31 December 2015 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 20% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 14,289,553 thousand (2014: 2% and 20% respectively, AMD 15,084,982 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

As at 31 December 2015 the accounts in amount of AMD 2,130,517 thousand (71%) (2014: AMD 2,435,946 thousand (70%)) were due from two commercial banks.

Non-cash transactions performed by the Bank during 2015 are represented by:

- repayment of AMD 408,225 thousand loan by transfer of property rights on pledge (2014: AMD 658,906 thousand).

16 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Deposits in financial institutions	**735,854**	722,221
Deposited funds with the CBA	**510,000**	160,000
Total amounts due from other financial institutions	**1,245,854**	882,221

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

17 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans to customers	**94,018,528**	120,321,417
Overdraft	**20,736,215**	3,155,094
	114,754,743	123,476,511
Less allowances for impairment of loans and advances	**(4,573,195)**	(4,516,117)
Total loans and advances to customers	**110,181,548**	118,960,394

As of 31 December 2015 accrued interest included in loans and advances to customers amounted to AMD 6,576,740 thousand (2014: AMD 4,044,558 thousand).

As of 31 December 2015 the average effective interest rates on loans and advances to corporate customers were 16.09% for loans in AMD, 15.3% for loans in USD, 14.16% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 25.46% for loans in AMD, 17.59% for loans in USD, 11.92% for loans in EUR (2014: on loans and advances to corporate customers 14.41% for loans in AMD, 12.76% for loans in USD, 11.85% for loans in EUR, 13.91% for loans in RUB and to individuals 21.43%for loans in AMD, 13.84% for loans in USD, 11.67% for loans in EUR).

As of December 31, 2015, the Bank had a concentration of loans represented by AMD 23,339,952 thousand due from the 15 largest third party entities and parties related with them (20% of gross loan portfolio) (2014: AMD 21,823,052 thousand or 18% due from the 15 largest third party entities and parties related with them). An allowance of AMD 1,496,852 thousand (2014: AMD 1,306,000 thousand) was made against these loans.

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Manufacture	**9,503,504**	12,282,590
Agriculture	**684,061**	778,610
Construction	**4,542,902**	4,773,010
Transportation	**4,235,454**	4,210,254
Trade	**23,902,749**	25,346,631
Services	**8,888,679**	8,196,147
Consumer	**41,191,322**	44,456,163
Mortgage	**14,162,071**	16,169,952
Other	**7,644,001**	7,263,154
	114,754,743	123,476,511
Less allowances for impairment of loans and advances	**(4,573,195)**	(4,516,117)
Total loans and advances	**110,181,548**	118,960,394

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

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	2015 Total
At 1 January 2015	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Charge/(reversal) for the year	(817,497)	46,254	(156,456)	179,745	111,710	(21,885)	2,673,973	362,396	13,918	2,392,158
Amounts written off	(114,666)	(37,863)	(26,917)	(89,635)	(526,328)	(6,566)	(3,255,347)	(408,053)	(6,288)	(4,471,663)
Recoveries	185,658	4,823	221,111	3,400	583,372	94,815	845,301	197,255	848	2,136,583
At 31 December 2015	266,353	21,000	85,468	504,175	1,248,540	1,068,221	946,317	352,011	81,110	4,573,195
Individual impairment	181,249	14,399	46,364	494,971	1,035,908	1,049,140	337,451	242,513	4,873	3,406,868
Collective impairment	85,104	6,601	39,104	9,204	212,632	19,081	608,866	109,498	76,237	1,166,327
	266,353	21,000	85,468	504,175	1,248,540	1,068,221	946,317	352,011	81,110	4,573,195
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	993,073	23,999	632,471	3,315,050	2,639,554	6,980,571	600,288	3,212,230	20,303	18,417,539

2014

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2014	433,052	42,062	99,007	53,670	904,801	337,715	283,710	105,689	220,912	2,480,618
Charge/(reversal) for the year	490,291	(37,926)	(13,580)	338,081	1,714,008	605,690	1,357,734	(242,256)	(108,724)	4,103,318
Amounts written off	(169,232)	(3,761)	(83,381)	(73,634)	(1,846,069)	(88,663)	(1,380,380)	(85,547)	(54,882)	(3,785,549)
Recoveries	258,747	7,411	45,684	92,548	307,046	147,115	421,326	422,527	15,326	1,717,730
At 31 December 2014	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Individual impairment	904,297	-	-	398,866	856,743	982,763	244,401	39,493	-	3,426,563
Collective impairment	108,561	7,786	47,730	11,799	223,043	19,094	437,989	160,920	72,632	1,089,554
	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,426,499	-	-	3,030,347	3,042,363	6,286,720	657,261	77,966	-	14,521,156

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
State owned enterprises	**323,190**	685,906
Privately held companies	**47,031,132**	49,998,452
Individuals	**56,288,029**	61,496,082
Sole proprietors	**11,112,392**	11,296,071
	114,754,743	123,476,511
Less allowance for impairment of loans and advances	**(4,573,195)**	(4,516,117)
Total loans and advances to customers	**110,181,548**	118,960,394

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Mortgage loans	**14,162,071**	16,169,952
Consumer loans	**39,886,245**	40,827,021
Car loans	**1,305,077**	3,629,142
Other	**934,636**	869,967
Total loans and advances to individuals	**56,288,029**	61,496,082

As at 31 December 2015 and 2014 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 30.

Other analyses of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 29.

Maturity analysis of loans and advances to customers are disclosed in Note 32.

18 Available-for-sale investments

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
RA state bonds	**4,177,724**	19,233
Corporate bonds	**221,447**	-
Total investments	**4,411,861**	31,923

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.

Available for sale debt securities by efficient interest rates and maturity date comprise:

In thousand Armenian drams		**2015**		2014
	%	**Maturity**	%	Maturity
RA state bonds	**6.23-14.10%**	**2015-2028**	8.4-14.23%	2015-2028

Available-for-sale investments at fair value of AMD 4,136,760 thousand (2014: AMD 4,984,447 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 balance sheet (Note 26).

All unquoted available-for-sale shares are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
COST AND REVALUED AMOUNT						
At January 1, 2014	2,600,168	374,397	943,484	359,862	2,095,829	6,373,740
Additions	800,232	13,429	142,929	1,927	326,341	1,284,858
Disposals	-	(2,609)	(65,547)	(64,608)	(35,213)	(167,977)
Reclassification	-	-	76	-	(76)	-
At December 31, 2014	**3,400,400**	**385,217**	**1,020,942**	**297,181**	**2,386,881**	**7,490,621**
Additions	**50,010**	**25,598**	**71,625**	**2,198**	**225,687**	**375,118**
Disposals	**-**	**(5,753)**	**(36,697)**	**(119,852)**	**(80,699)**	**(243,001)**
Revaluation of PPE	**149,663**	**-**	**-**	**-**	**-**	**149,663**
Revaluation adjustments	**(233,719)**	**-**	**-**	**-**	**-**	**(233,719)**
At December 31, 2015	**3,366,354**	**405,062**	**1,055,870**	**179,527**	**2,531,869**	**7,538,682**
ACCUMULATED DEPRECIATION						
At January 1, 2014	128,434	82,314	605,225	115,498	1,145,714	2,077,185
Depreciation charge	56,879	7,652	70,273	40,552	201,865	377,221
Disposals	-	(2,609)	(38,609)	(37,345)	(27,678)	(106,241)
At December 31, 2014	**185,313**	**87,357**	**636,889**	**118,705**	**1,319,901**	**2,348,165**
Depreciation charge	**57,955**	**10,715**	**95,413**	**32,006**	**216,863**	**412,952**
Disposals	**-**	**(5,753)**	**(36,097)**	**(69,968)**	**(42,240)**	**(154,058)**
Revaluation adjustments	**(233,719)**	**-**	**-**	**-**	**-**	**(233,719)**
At December 31, 2015	**9,549**	**92,319**	**696,205**	**80,743**	**1,494,524**	**2,373,340**
CARRYING VALUE						
At December 31, 2015	**3,356,805**	**312,743**	**359,665**	**98,784**	**1,037,345**	**5,165,342**
At December 31, 2014	**3,215,087**	**297,860**	**384,053**	**178,476**	**1,066,980**	**5,142,456**
At January 1, 2014	2,471,734	292,083	338,259	244,364	950,115	4,296,555

Revaluation of assets

The land and buildings owned by the Bank were evaluated by an independent appraiser in December 2015 using the comparative sales methods resulting in a net decrease in amount of AMD 149,663 thousand. Management has based their estimate of the fair value of the buildings on the results of the independent appraisal.

If the land and buildings were presented in difference of cost and accumulated depreciation the carrying value would have been AMD 3,192,114 thousand as at 31 December 2015 (2014: AMD 2,897,446 thousand).

Fully depreciated items

As at 31 December 2015 fixed assets included fully depreciated and amortized assets in cost of AMD 1,036,034 thousand (2014: AMD 889,394 thousand).

Fixed assets in the phase of installation

As at 31 December 2015 fixed assets included assets in the phase of installation amounting AMD 466,468 thousand, containing buildings in amount of AMD 17,830 thousand (2014: AMD 349,895 thousand, containing buildings in amount of AMD 150,470 thousand)

Restrictions on title of fixed assets

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

Contractual commitments

As at 31 December 2015, the Bank had no contractual commitment in respect of investments in fixed assets (2014: nil).

20 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2014	734,205	341,228	100,433	1,175,866
Additions	188,606	194,044	-	382,650
At December 31, 2014	**922,811**	**535,272**	**100,433**	**1,558,516**
Additions	**8,027**	**132,035**	**-**	**140,062**
At December 31, 2015	**930,838**	**667,307**	**100,433**	**1,698,578**
AMORTISATION				
At January 1, 2014	63,217	112,737	54,696	230,650
Amortisation charge	49,869	20,827	2,388	73,084
At December 31, 2014	**113,086**	**133,564**	**57,084**	**303,734**
Amortisation charge	**58,510**	**19,898**	**2,388**	**80,796**
At December 31, 2015	**171,596**	**153,462**	**59,472**	**384,530**
CARRYING VALUE				
At December 31, 2015	**759,242**	**513,845**	**40,961**	**1,314,048**
At December 31, 2014	809,725	401,708	43,349	1,254,782
At January 1, 2014	670,988	228,491	45,737	945,216

Contractual commitments

As at 31 December 2015, the Bank did not have contractual commitments in respect of investments in intangible assets.

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

As at 31 December 2015, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 580,189 thousand (2014: AMD 647,905 thousand).

21 Other assets

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Prepayments and other debtors	**1,264,949**	670,145
Accounts receivable	**39,996**	34,714
Other assets	**343,092**	287,514
	1,648,037	992,373
Less allowance for impairment	**(16,081)**	(9,844)
	1,631,956	982,529
Repossessed assets	**3,601,921**	3,409,764
Other prepaid taxes	**1,565**	27,143
Materials	**99,758**	107,306
Precious metals	**52,343**	56,935
Total non-financial assets	**3,755,587**	**3,601,148**
Total other assets	**5,387,543**	4,583,677

Repossessed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

During 2015 the Bank has recognised an impairment of repossessed assets in AMD 183,065 thousand due to decrease in real estate market prices.

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

In thousand Armenian drams	Total
At January 1, 2014	6,529
Charge for the year	3,315
At December 31, 2014	**9,844**
Charge for the year	**6,237**
At December 31, 2015	**16,081**

22 Amounts due to financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Correspondent accounts of other banks	**84,849**	982,086
Current accounts of other financial institutions	**47,836**	51,871
Loans from financial institutions	**17,117,304**	25,314,479
Loans under repurchase agreements	**4,002,028**	4,855,326
Deposits from financial institutions	**1,003,495**	1,359,504
Other	**-**	4,263
Total amounts due to financial institutions	**22,255,512**	32,567,529

As of 31 December 2015 the average effective interest rates on amounts due to financial institutions was 9.79% for borrowings in AMD (2014: 9.89%) and 6.8% for borrowings in USD (2014: 6.49%).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

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 December 31, 2015	As of December 31, 2014
Government of the RA		
Loans	**551,740**	877,594
Other	**7,959**	-
	559,699	877,594
Corporate customers		
Current/Settlement accounts	**6,536,569**	9,283,847
Time deposits	**6,997,688**	5,780,854
	13,534,257	15,064,701
Retail customers		
Current/Demand accounts	**5,614,865**	5,195,852
Time deposits	**84,461,903**	80,931,682
	90,076,768	86,127,534
Total amounts due to customers	**104,170,724**	102,069,829

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of "Rural Areas Development Programme" and "Economy stabilization lending programme". Loans carry fixed interest rates.

Deposits from corporate and retail customers carry fixed interest rates.

As of 31 December 2015 the average effective interest rate on amounts due to Government of the RA was 7.15% for liabilities in AMD, 4.06% for liabilities in USD (2014: the average effective interest rate was 6.75% for liabilities in AMD, 4.06% for liabilities in USD).

As at 31 December 2015 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 7,011,401 thousand (2014: AMD 6,494,537 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2015 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 8,724,848 thousand (2014: AMD 14,614,719 thousand) or 9.5% of total retail and corporate customer accounts (2014: 14%).

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

As of 31 December 2015 the average effective interest rates on amounts due to corporate customers were 13.59% for liabilities in AMD, 8.85% for liabilities in USD, 7.56% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 17.33% for liabilities in AMD, 7.66% for liabilities in USD, 6.6% for liabilities in EUR (2014: for corporate customers 12.88% for liabilities in AMD, 9.05% for liabilities in USD, 3.56% for liabilities in EUR, and for individuals 13.64% for liabilities in AMD, 7.49% for liabilities in USD, 5.01% for liabilities in EUR).

24 Borrowings

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Subordinated debt provided by non-financial organizations	**5,273,785**	7,126,893
Subordinated debt provided by the CBA	**-**	1,874,145
Other borrowing	**2,237,706**	4,340,000
Total subordinated debt	**7,511,491**	13,341,038

The subordinate debt was provided by the Central Bank of RA on 06 April, 2010, which was matured on 06 April, 2015. The interest rate comprises 7.5%.

In the current year the Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 29).

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

As of 31 December 2015 average weighted interest rate of borrowings was 10.28% (2014: 10.25%).

25 Other liabilities

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Accounts payables	**114,587**	121,323
Dividends payable	**86,797**	384,120
Due to personnel	**155,135**	222,472
Total other financial liabilities	**356,519**	727,915
Tax payable, other than income tax	**304,350**	300,630
Revenues of future periods	**41,596**	43,143
Prepayments received	**59,535**	45,774
Total other non-financial liabilities	**405,481**	389,547
Total other liabilities	**762,000**	1,117,462

26 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2015	2014	**2015**	2014
Investment securities (Note 18, 22)	**4,136,760**	4,984,447	**4,002,028**	4,855,326
	4,136,760	4,984,447	**4,002,028**	4,855,326

27 Equity

As at 31 December 2015 the Bank's registered and paid-in share capital was AMD 14,167,947 thousand. In accordance with the Bank's statute, the share capital consists of 109,669,471 ordinary shares, all of which have a par value of AMD 100 each and 32,010,000 preference shares, all of which have a par value of AMD 100 each.

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

In thousand Armenian drams	**2015**		2014	
	Paid-in share capital	**% of total paid-in capital**	**Paid-in share capital**	**% of total paid-in capital**
Ripatonso Holdings Ltd	**-**	**-**	13,100,700	100
Glovery Holding Ltd	**13,100,700**	**92**	-	-
Arolova Enterprises Ltd	**509,395**	**4**	-	-
Amixon Business Ltd	**350,000**	**2**	-	-
Other	**207,852**	**2**	-	-
	14,167,947	**100**	13,100,700	100

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

In 2015 the Bank increased its share capital by AMD 2,494,669 thousand, from which the share premium was AMD 1,387,422 thousand. The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

31 December 2016 is determined as a deadline for the allocation of the Bank's additionally issued shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2015 the dividends for preference shareholders recognized in the financial statements amounted to AMD 202,998 thousand (2014: AMD 384,120 thousand).

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

28 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.

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 December 31, 2015**	As of December 31, 2014
Undrawn loan commitments	**3,468,061**	4,935,703
Guarantees	**1,612,800**	1,772,728
Total commitments and contingent liabilities	**5,080,861**	6,708,431

Operating lease commitments – Bank as a lessee

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

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Not later than 1 year	**662,481**	692,809
Later than 1 year and not later than 5 years	**1,844,972**	2,072,266
Later than 5 years	**73,395**	409,314
Total operating lease commitments	**2,580,848**	3,174,389

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 19 and 20.

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 anticipates partially 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.

29 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

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	**As of December 31, 2015**		As of December 31, 2014	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of financial position				
Assets				
Loans and advances to customers				
Loans outstanding at January 1, gross	**246,962**	**578,709**	299,140	521,614
Loans issued during the year	**2,477**	**215,676**	20,423	252,733
Loan repayments during the year	**(9,988)**	**(585,867)**	(72,601)	(195,638)
Loans outstanding at December 31, gross	**239,451**	**208,518**	246,962	578,709
Less: allowance for loan impairment	**(2,395)**	**(2,085)**	(2,470)	(5,787)
Loans outstanding at December 31	**237,056**	**206,433**	244,492	572,922
Amounts due from other financial institutions				
At January 1	**540,238**	**-**	235,656	-
Increase	**83,418,690**	**-**	135,671,503	-
Decrease	**(83,392,197)**	**-**	(135,366,921)	-
At December 31	**566,731**	**-**	540,238	-
Liabilities				
Amounts due to financial institutions				
At January 1	**890,535**	**-**	314,612	-
Increase	**7,623,634**	**-**	7,222,032	-
Decrease	**(7,639,996)**	**-**	(6,646,109)	-
At December 31	**874,173**	**-**	890,535	-
Amounts due to customers				
Deposits at January 1	**362,014**	**624,226**	491,016	719,840
Deposits received during the year	**31,543,725**	**2,052,752**	88,628,735	6,778,086
Deposits repaid during the year	**(31,234,208)**	**(2,484,822)**	(88,757,737)	(6,873,700)
Deposits at December 31	**671,531**	**192,156**	362,014	624,226
Borrowings				
At January 1	**11,466,893**	**-**	21,951,228	-
Received during the year	**33,042,171**	**-**	47,351,479	-
Repaid during the year	**(36,997,573)**	**-**	(57,835,814)	-
Borrowings at December 31	**7,511,491**	**-**	11,466,893	-

In thousand Armenian drams	As of December 31, 2015		As of December 31, 2014	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of profit or loss and other comprehensive income				
Interest and similar income	**37,373**	**21,109**	110,380	63,554
Interest and similar expenses	**(2,071,004)**	**(48,983)**	(2,018,181)	(45,187)
Charge/(recovery) of credit losses	**(75)**	**(3,702)**	(522)	571
Operating lease expenses	**(312,000)**	**-**	312,000	-
Insurance payments	**(41,923)**	**-**	84,685	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-21%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Salaries and bonuses	**631,517**	611,649
Total key management compensation	**631,517**	611,649

30 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, buildings and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the Bank's management.

At each reporting date, the Bank's Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank's Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

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

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

30.1 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	**-**	**26,012,823**	**-**	**26,012,823**	**26,012,823**
Amounts due from other financial institutions	**-**	**1,245,854**	**-**	**1,245,854**	**1,245,854**
Loans and advances to customers	**-**	**110,181,548**	**-**	**110,181,548**	**110,181,548**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**-**	**22,255,512**	**-**	**22,255,512**	**22,255,512**
Amounts due to customers	**-**	**104,170,724**	**-**	**104,170,724**	**104,170,724**
Borrowings	**-**	**7,511,491**	**-**	**7,511,491**	**7,511,491**
Other financial liabilities	**-**	**356,519**	**-**	**356,519**	**356,519**

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	-	34,036,384	-	34,036,384	34,036,384
Amounts due from other financial institutions	-	882,221	-	882,221	882,221
Loans and advances to customers	-	118,960,394	-	118,960,394	118,960,394
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	32,567,529	-	32,567,529	32,567,529
Amounts due to customers	-	102,069,829	-	102,069,829	102,069,829
Borrowings	-	13,341,038	-	13,341,038	13,341,038
Other financial liabilities	-	727,915	-	727,915	727,915

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 9% to 24% 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.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

30.2 Financial instruments that are measured at fair value

In thousand Armenian drams	**As of 31 December 2014**			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unlisted securities and bonds	**-**	**8,535,931**	**-**	**8,535,931**
Total	**-**	**8,535,931**	**-**	**8,535,931**

In thousand Armenian drams	As of 31 December 2014			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unlisted securities and bonds	-	5,003,680	-	5,003,680
Total	-	5,003,680	-	5,003,680

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

Unlisted equity investments.

The fair value of Bank's investments in 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.

30.3 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	-	-	**3,366,354**	**3,366,354**
Total non-financial assets	-	-	**3,366,354**	**3,366,354**
NET FAIR VALUE	**-**	**-**	**3,366,354**	**3,366,354**

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	-	-	3,400,400	3,400,400
Total non-financial assets	-	-	3,400,400	3,400,400
NET FAIR VALUE	-	-	3,400,400	3,400,400

Fair value measurements in Level 3

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

In thousand Armenian drams	As of 31 December 2015	
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2015	**3,400,400**	**3,400,400**
Net income from impairment recognized in comprehensive income	**103,881**	**103,881**
PPE revaluation adjustment	**(233,719)**	**(233,719)**
Gain recognised in other comprehensive income	**45,782**	**45,782**
Purchase	**50,010**	**50,010**
Balance as at 31 December, 2015	**3,366,354**	**3,366,354**
NET FAIR VALUE	**3,366,354**	**3,366,354**

In thousand Armenian drams	2014	
	Property plant equipment	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2014	2,600,168	2,600,168
Purchases	800,232	800,232
Balance as at 31 December, 2014	3,400,400	3,400,400
NET FAIR VALUE	3,400,400	3,400,400

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 appraisal was carried out using a comparative approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

31 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams					**As of December 31, 2015**	
				Amounts not offset		
	Gross liabilities	**Gross assets offset**	**Net amounts presented**	**Financial instruments**	**Cash collateral received**	**Net**
FINANCIAL LIABILITIES						
Securities pledged under repurchase agreements (Note 26)	**(4,002,028)**	**-**	**(4,002,028)**	**4,136,760**	**-**	**134,732**
	(4,002,028)	**-**	**(4,002,028)**	**4,136,760**	**-**	**134,732**

In thousand Armenian drams					As of December 31, 2014	
				Amounts not offset		
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Cash collateral received	Net
FINANCIAL LIABILITIES						
Securities pledged under repurchase agreements (Note 26)	(4,855,326)	-	(4,855,326)	4,984,447	-	129,121
	(4,855,326)	-	(4,855,326)	4,984,447	-	129,121

32 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 33.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams							**As of December 31, 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	**26,012,823**	**-**	**-**	**26,012,823**	**-**	**-**	**-**	**26,012,823**
Amounts due from other financial institutions	**735,854**	**-**	**-**	**735,854**	**-**	**510,000**	**510,000**	**1,245,854**
Loans and advances to customers	**17,333,604**	**17,623,158**	**21,570,598**	**56,527,360**	**44,080,251**	**9,573,937**	**53,654,188**	**110,181,548**
Investments available for sale	**-**	**4,984**	**-**	**4,984**	**4,406,877**	**-**	**4,406,877**	**4,411,861**
Securities pledged under repurchase agreements	**136,988**	**-**	**-**	**136,988**	**3,999,772**	**-**	**3,999,772**	**4,136,760**
	44,219,269	**17,628,142**	**21,570,598**	**83,418,009**	**52,486,900**	**10,083,937**	**62,570,837**	**145,988,846**
LIABILITIES								
Amounts due to financial institutions	**368,574**	**12,974,322**	**5,264,701**	**18,607,597**	**2,635,713**	**1,012,202**	**3,647,915**	**22,255,512**
Amounts due to customers	**12,103,737**	**47,112,604**	**44,344,798**	**103,561,139**	**360,788**	**248,797**	**609,585**	**104,170,724**
Borrowings	**1,334**	**-**	**-**	**1,334**	**2,352,488**	**5,157,669**	**7,510,157**	**7,511,491**
Other liabilities	**87,639**	**268,880**	**-**	**356,519**	**-**	**-**	**-**	**356,519**
	12,561,284	**60,355,806**	**49,609,499**	**122,526,589**	**5,348,989**	**6,418,668**	**11,767,657**	**134,294,246**
Net position	**31,657,985**	**(42,727,664)**	**(28,038,901)**	**(39,108,580)**	**47,137,911**	**3,665,269**	**50,803,180**	**11,694,600**
Accumulated gap	**31,657,985**	**(11,069,679)**	**(39,108,580)**		**8,029,331**	**11,694,600**		

In thousand Armenian drams	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
								As of December 31, 2014
ASSETS								
Cash and cash equivalents	34,036,384	-	-	34,036,384	-	-	-	34,036,384
Amounts due from other financial institutions	722,221	-	-	722,221	-	160,000	160,000	882,221
Loans and advances to customers	10,757,731	5,665,360	28,658,077	45,081,168	62,568,199	11,311,027	73,879,226	118,960,394
Investments available for sale	-	19,233	-	19,233	-	12,690	12,690	31,923
	-	207,839	-	207,839	3,972,281	804,327	4,776,608	4,984,447
	45,516,336	5,892,432	28,658,077	80,066,845	66,540,480	12,288,044	78,828,524	158,895,369
LIABILITIES								
Amounts due to financial institutions								
Amounts due to customers	9,784,971	5,494,405	11,535,685	26,815,061	4,891,199	861,269	5,752,468	32,567,529
Borrowings	28,850,543	25,072,995	43,093,975	97,017,513	2,648,285	2,404,031	5,052,316	102,069,829
Other liabilities	9,159	4,037,704	2,169,625	6,216,488	4,749,700	2,374,850	7,124,550	13,341,038
	505,443	-	222,472	727,915	-	-	-	727,915
	39,150,116	34,605,104	57,021,757	130,776,977	12,289,184	5,640,150	17,929,334	148,706,311
Net position	6,366,220	(28,712,672)	(28,363,680)	(50,710,132)	54,251,296	6,647,894	60,899,190	10,189,058
Accumulated gap	6,366,220	(22,346,452)	(50,710,132)		3,541,164	10,189,058		

33 Risk management

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

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

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity 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 Audit Committee.

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are 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.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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 managed accordingly.

33.1 Credit risk

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

33.1.1 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	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**23,310,254**	**1,982,075**	**720,494**	**26,012,823**
Amounts due from other financial institutions	**582,563**	**663,291**	**-**	**1,245,854**
Loans and advances to customers	**108,071,176**	**-**	**2,110,372**	**110,181,548**
Investments available for sale	**4,411,861**	**-**	**-**	**4,411,861**
Securities pledged under repurchase agreements	**4,136,760**	**-**	**-**	**4,136,760**
As at 31 December 2015	**140,512,614**	**2,645,366**	**2,830,866**	**145,988,846**
As at 31 December 2014	152,292,014	3,515,377	3,087,978	158,895,369

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

Industry sectors

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

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	**26,012,823**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26,012,823**
Amounts due from other financial institutions	**1,245,854**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**1,245,854**
Loans and advances to customers	**-**	**9,237,151**	**663,061**	**4,457,434**	**3,731,279**	**22,654,209**	**7,820,458**	**40,245,005**	**13,810,060**	**7,562,891**	**110,181,548**
Investments available for sale	**4,411,861**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,411,861**
Securities pledged under repurchase agreements	**4,136,760**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,136,760**
As at 31 December 2015	**35,807,298**	**9,237,151**	**663,061**	**4,457,434**	**3,731,279**	**22,654,209**	**7,820,458**	**40,245,005**	**13,810,060**	**7,562,891**	**145,988,846**
As at 31 December 2014	39,934,975	11,269,732	770,824	4,725,280	3,799,589	24,266,845	7,194,290	43,773,773	15,969,539	7,190,522	158,895,369

33.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

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

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, 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 loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Loans collateralized by real estate	**71,796,633**	74,410,239
Loans collateralized by movable property	**1,482,968**	2,876,351
Loans collateralized by goods in circulation	**277,432**	658,866
Loans collateralized by guarantees	**6,313,192**	11,126,497
Loans collateralized by cash	**3,514,323**	3,022,890
Loans collateralized by household appliances	**14,083,535**	13,000,124
Unsecured loans	**17,286,660**	18,381,544
Total loans and advances to customers (gross)	**114,754,743**	123,476,511

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 letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans and advances to customers		
Manufacture	1%	1%
Agriculture	1%	1%
Construction	1%	1%
Transportation	1%	1%
Trade	1%	1%
Service	1%	1%
Consumer	1.5%	1%
Mortgage	1%	1%

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					As of December 31, 2015
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	65,076	4,071	-	633,708	702,855
Agriculture	4,497	-	-	52,808	57,305
Construction	5,661	-	-	60,322	65,983
Transportation	25,451	9,178	20,840		55,469
Trade	159,746	140,002	140,264	1,393,896	1,833,908
Service	58,628	6,906	21,791	264,183	351,508
Consumer	717,100	303,368	244,112	1,735,896	3,000,476
Mortgage	196,509	128,105	59,053	617,449	1,001,116
Other	3,532	-	-	14,368	17,900
Total	1,236,200	591,630	486,060	4,772,630	7,086,520

In thousand Armenian drams					As of December 31, 2014
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	-	-	-	66,178	66,178
Agriculture	-	-	-	-	-
Construction	-	-	-	162,000	162,000
Transportation	-	-	-	-	-
Trade	714,087	-	-	-	714,087
Service			-	82,891	82,891
Consumer	4,130	865	-	2,938	7,933
Mortgage	-	-	-	-	-
Other	-	-	-	-	-
Total	718,217	865	-	314,007	1,033,089

33.2 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.

33.2.1 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 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 income statement.

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

In thousand Armenian drams — **As of December 31, 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**	**-**	**-**	**-**	**152,505**	**-**	**152,505**
USD	**+1**	**(37,239)**	**-**	**-**	**73,113**	**-**	**35,874**
AMD	**(1)**	**-**	**-**	**-**	**(146,126)**	**-**	**(146,126)**
USD	**(1)**	**37,239**	**-**	**-**	**(69,744)**	**-**	**(32,505)**

In thousand Armenian drams — As of December 31, 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	-	40	-	104,476	52,059	156,575
USD	+1	(72,576)	-	-	-	-	(72,576)
AMD	(1)	-	(40)	-	(101,128)	(47,325)	(148,493)
USD	(1)	72,576	-	-	-	-	72,576

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 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 income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**+5**	**(164,207)**	+5	(203,705)
EUR	**+5**	**(603)**	+5	15,446
USD	**(5)**	**164,207**	(5)	203,705
EUR	**(5)**	**603**	(5)	(15,446)

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

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies/ precious metals**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and cash equivalents	**16,566,706**	**8,656,970**	**789,147**	**26,012,823**
Amounts due from other financial institutions	**510,000**	**735,854**	**-**	**1,245,854**
Loans and advances to customers	**44,265,383**	**65,910,489**	**5,676**	**110,181,548**
Investments available for sale	**2,533,921**	**1,877,940**	**-**	**4,411,861**
Securities pledged under repurchase agreements	**4,136,760**	**-**	**-**	**4,136,760**
	68,012,770	**77,181,253**	**794,823**	**145,988,846**
LIABILITIES				
Amounts due to financial institutions	**9,185,436**	**13,068,273**	**1,803**	**22,255,512**
Amounts due to customers	**43,534,814**	**59,805,004**	**830,906**	**104,170,724**
Borrowings	**100**	**7,511,391**	**-**	**7,511,491**
Other liabilities	**306,108**	**48,739**	**1,672**	**356,519**
	53,026,458	**80,433,407**	**834,381**	**134,294,246**
Net position as at 31 December 2015	**14,986,312**	**(3,252,154)**	**(39,558)**	**11,694,600**
Commitments and contingent liabilities as at 31 December 2015	**3,899,778**	**1,181,083**	**-**	**5,080,861**
Total financial assets	64,085,436	94,203,768	606,165	158,895,369
Total financial liabilities	50,082,317	97,968,948	655,046	148,706,311
Net position as at 31 December 2014	14,003,119	(3,765,180)	(48,881)	10,189,058
Commitments and contingent liabilities as at 31 December 2014	2,936,336	3,772,095	-	6,708,431

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.

33.3 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 15. 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)	**21.53**	21.76
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**272.06**	266.63

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 32 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	As of December 31, 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**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**371,538**	**13,187,599**	**5,661,357**	**3,689,998**	**1,518,303**	**24,428,795**
Amounts due to customers	**12,203,220**	**47,887,058**	**47,685,844**	**541,182**	**273,677**	**108,590,981**
Borrowings	**75,420**	**197,563**	**679,121**	**3,763,981**	**5,776,589**	**10,492,674**
Other liabilities	**87,639**	**268,880**	**-**	**-**	**-**	**356,519**
Total undiscounted financial liabilities	**12,737,817**	**61,541,100**	**54,026,322**	**7,995,161**	**7,568,569**	**143,868,969**
Commitments and contingent liabilities	**400,342**	**451,204**	**1,885,538**	**2,343,777**	**-**	**5,080,861**

In thousand Armenian drams	As of December 31, 2014					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	10,229,808	6,912,034	12,706,264	6,633,164	1,020,169	37,501,439
Amounts due to customers	32,954,178	27,752,288	50,849,689	2,694,502	2,804,031	117,054,688
Borrowings	122,071	4,281,843	2,935,042	8,169,484	2,398,599	17,907,039
Other liabilities	505,443	-	222,472	-	-	727,915
Total undiscounted financial liabilities	43,811,500	38,946,165	66,713,467	17,497,150	6,222,799	173,191,081
Commitments and contingent liabilities	5,111,559	288,730	801,809	506,333	-	6,708,431

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 32. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2015 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

34 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, police and processes from the previous years.

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. 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	**14,507,633**	16,208,646
Tier 2 capital	**3,490,367**	5,792,800
Total regulatory capital	**17,998,000**	22,001,446
Risk-weighted assets	**148,375,927**	164,928,381
Capital adequacy ratio	**12.13%**	13.34%

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

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2015 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the banks, as of 1 January 2017 and after that period.

By its perspective development project the Bank has planned to issue additional shares in April, July and October of 2016, in 5.2 billion, 2.8 billion and 4 billion volumes respectively.

35 Segment reporting

The Bank's operations are quite integrated and form one business segment in accordance with the requirements of *IFRS 8 "Operational segments"*.

Most of the revenues from external clients relate to the RA residents. The Bank does not have a single client from which receives 10% or more of its revenue.

The Bank's non-current assets are mainly in the RA.

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