Grant Thornton

Financial Statements and Independent Auditor's Report

"ANELIK BANK" Closed Joint Stock Company

31 December 2015

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Independent auditor's report

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To the Shareholder and Council of "ANELIK BANK" Closed Joint Stock Company:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the "ANELIK BANK" Closed Joint Stock Company as of December 31, 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a Matter

We draw attention to note 35 to the financial statements. Financial statements of the Bank have been prepared based on the Bank's going concern principle. In 2014 the Board of RA Central Bank decided to determine the minimum size of total capital AMD 30,000,000 thousand as of January 1, 2017 and after that period. The ability of the Bank to act as a going concern generally depends on the Bank's shareholder's intentions concerning the fulfilment of the Bank's total capital as of 01 January, 2017 and the measures taken towards it. Our opinion is not qualified due to this matter.

Gagik Gyulbudaghyan
Managing Partner

Zaruhi Gharibyan
Audit Manager

Grant Thornton CJSC
11 March, 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	**10,385,085**	6,838,961
Interest and similar expense	6	**(6,165,524)**	(4,486,903)
Net interest income		**4,219,561**	2,352,058
Fee and commission income	7	**743,874**	703,219
Fee and commission expense	7	**(109,165)**	(119,723)
Net fee and commission income		**634,709**	583,496
Net trading income	8	**263,001**	87,162
Other income	9	**989,585**	1,214,589
Impairment charge	10	**(1,000,646)**	(269,379)
Staff costs	11	**(2,234,240)**	(1,881,055)
Depreciation of property and equipment	19	**(268,009)**	(318,607)
Amortization of intangible assets	20	**(51,735)**	(43,670)
Loss from sale of loans		**(502,788)**	-
Other expenses	12	**(1,661,099)**	(1,266,021)
Profit before income tax		**388,339**	458,573
Income tax expense	13	**(173,132)**	(158,776)
Profit for the year		**215,207**	299,797
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains from changes in fair value of available-for-sale financial assets		**20,143**	27,245
Income tax relating to items that will be reclassified		**(4,047)**	(5,449)
Net gain from items that will be reclassified subsequently to profit or loss		**16,096**	21,796
Items that will not be reclassified subsequently to profit or loss		**-**	-
Other comprehensive income for the year, net of tax		**16,096**	21,796
Total comprehensive income for the year		**231,303**	321,593

The accompanying notes on pages 7 to 55 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	14	14,309,284	14,053,695
Amounts due from other financial institutions	15	606,340	2,094,113
Loans and advances to customers	16	60,700,897	57,912,781
Investments available for sale	17	155,917	135,776
Investments held to maturity	18	3,691,293	100,233
Securities pledged under repurchase agreements	27	384,953	2,309,262
Property, plant and equipment	19	4,728,884	4,844,102
Intangible assets	20	268,008	256,466
Prepaid income tax		112,021	135,288
Deferred tax assets	13	202,773	346,746
Repossessed assets	21	3,665,987	3,825,770
Other assets	22	1,941,694	616,353
TOTAL ASSETS		90,768,051	86,630,585
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	23	20,980,820	21,698,917
Amounts due to customers	24	53,060,765	48,392,089
Subordinated debt	25	-	1,901,359
Other liabilities	26	355,538	378,595
Total liabilities		74,397,123	72,370,960
Equity			
Share capital	28	13,696,300	11,816,300
Share premium		3,483,700	3,483,700
Statutory general reserve		97,000	97,000
Other reserves		253,665	237,569
Accumulated loss		(1,159,737)	(1,374,944)
Total equity		16,370,928	14,259,625
TOTAL LIABILITIES AND EQUITY		90,768,051	86,630,585

The financial statements from pages 3 to 55 were approved by the Council of the Bank on March 11, 2016 and signed by the Bank's Chairman of the Board and Chief Accountant.

The accompanying notes on pages 7 to 55 are an integral part of these financial statements.

Nerses KARAMANUKYAN
Chairman of the Board

Naira 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	Accumula-ted loss	Total
Balance as of January 1, 2014	10,816,300	3,483,700	97,000	59,274	156,499	(1,674,741)	12,938,032
Increase in share capital	1,000,000	-	-	-	-	-	1,000,000
Transactions with owners	1,000,000	-	-	-	-	-	1,000,000
Profit for the year	-	-	-	-	-	299,797	299,797
Other comprehensive income:							
Net unrealized gains from changes in fair value	-	-	-	27,245	-	-	27,245
Income tax relating to components of other comprehensive income	-	-	-	(5,449)	-	-	(5,449)
Total comprehensive income for the year	-	-	-	21,796	-	299,797	321,593
Balance as of December 31, 2014	**11,816,300**	**3,483,700**	**97,000**	**81,070**	**156,499**	**(1,374,944)**	**14,259,625**
Increase in share capital	**1,880,000**	**-**	**-**	**-**	**-**	**-**	**1,880,000**
Transactions with owners	**1,880,000**	**-**	**-**	**-**	**-**	**-**	**1,880,000**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**215,207**	**215,207**
Other comprehensive income:							
Net unrealized gains from changes in fair value	**-**	**-**	**-**	**20,143**	**-**	**-**	**20,143**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**(4,047)**	**-**	**-**	**(4,047)**
Total comprehensive income for the year	**-**	**-**	**-**	**16,096**	**-**	**215,207**	**231,303**
Balance as of December 31, 2015	**13,696,300**	**3,483,700**	**97,000**	**97,166**	**156,499**	**(1,159,737)**	**16,370,928**

The accompanying notes on pages 7 to 55 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	**388,339**	458,573
Adjustments for		
Increase in provision for non performing loans	**1,000,646**	269,379
Foreign currency translation net gains	**(82,192)**	(260,356)
Impairment loss/(reversal of impairment) on repossessed assets	**135,691**	(351,013)
Depreciation and amortisation allowances	**319,744**	362,277
Gain from disposal of PPE	**7,043**	(29,296)
Interest receivable	**798,749**	(411,981)
Interest payable	**7,409**	280,689
Cash flows from operating activities before changes in operating assets and liabilities	**2,575,429**	318,272
Net (Increase)/decrease in operating assets		
Deposits with central banks	**-**	(120,000)
Amounts due from other financial institutions	**1,502,496**	(1,345,783)
Loans and advances to customers	**(3,855,676)**	(15,104,774)
Repossessed assets	**24,092**	(575,097)
Other assets	**(1,337,569)**	(254,342)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(485,041)**	(454,136)
Amounts due to customers	**4,193,453**	11,207,730
Other liabilities	**(23,954)**	109,093
Net cash from/(used in) operating activities before income tax	**2,593,230**	(6,219,037)
Income tax paid	**(9,939)**	(12,359)
Net cash from/(used in) operating activities	**2,583,291**	(6,231,396)
Cash flows from investing activities		
Purchase of investment securities	**(1,666,749)**	(2,091,577)
Purchase of property and equipment	**(159,426)**	(224,825)
Proceeds from sale of property and equipment	**-**	6,075
Purchase of intangible assets	**(63,685)**	(90,553)
Net cash used in investing activities	**(1,889,860)**	(2,400,880)
Cash flow from financing activities		
Issue of share capital	**1,880,000**	1,000,000
Loans received/(repaid) from financial institutions	**(449,698)**	9,800,866
Long term loans from RA Government	**70,675**	(327,458)
Subordinated debt	**(1,887,989)**	-
Net cash from/(used in) financing activities	**(387,012)**	10,473,408
Net increase in cash and cash equivalents	**306,419**	1,841,132
Cash and cash equivalents at the beginning of the year	**14,053,695**	11,570,290
Effect of exchange rate differences on cash and cash equivalents	**(50,830)**	642,273
Cash and cash equivalents at the end of the year (Note 14)	**14,309,284**	14,053,695

Supplementary information:		
Interest received	**11,183,834**	5,978,088
Interest paid	**(6,158,115)**	(4,133,993)

Accompanying notes to the financial statements

1 Principal activities

"ANELIK BANK" CJSC (the "Bank") is a closed joint-stock bank incorporated in the Republic of Armenia (the RA) in 1990. "ANELIK BANK" CJSC has been reorganized from limited liability company into a closed joint stock company in April 2007. The Bank is regulated by the legislation of RA and conducts its business under license number 9, granted on 31.10.96 by the Central Bank of Armenia (the "CBA").

The Bank is a member of Individuals deposit compensation guarantee state system of RA, as well as member of Union of Banks of Armenia, ArCa, MasterCard, 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 13 branches in Yerevan and in different regions.

The registered office of the Bank is located at: Vardanants 13, Yerevan.

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 land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Bank's management have not yet assessed the impact of IFRS 15 on these financial statements.

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

- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (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 consistently applied in the preparation of the financial statements.

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 Bank 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 balance sheet date.

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

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

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

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

	December 31, 2015	December 31, 2014
AMD/1 US Dollar	**483.75**	474.97
AMD/1 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 balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from other financial institutions

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

4.6 Financial instruments

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

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

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

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,
- available-for-sale financial instruments,
- 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.

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.7 Impairment of financial assets

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

Assets carried at amortized cost

A financial asset or a Bank 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 Bank 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 Bank 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 Bank of financial assets with similar credit risk characteristics and that Bank 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 Banked on the basis of credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a Bank of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 Banks 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 Bank 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 comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.8 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.9 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate item in statement of financial position. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.10 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected 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".

4.11 Leases

Operating - Bank as lessee

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

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. The Bank's buildings and lands 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	50	2
Computers	4	25
Vehicles	10	10
Other fixed assets	10	10

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

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

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

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment

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

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

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

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

4.14 Repossessed assets

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

4.15 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, 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.

4.16 Financial guarantees

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

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

4.17 Provisions

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

4.18 Share capital

Share capital

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

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.

Accumulated loss

Includes accumulated loss of current and previous periods.

Dividends

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

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

Property revaluation surplus

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

Revaluation reserve for available-for-sale securities

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

4.19 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.

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 31).

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as held to maturity financial assets or available-for-sale financial 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. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Refer to Note 30.

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 statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the 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 29.

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	**9,133,271**	6,355,015
Amounts due from financial institutions	**37,113**	81,798
Interest accrued on individually impaired financial assets	**882,811**	219,182
Debt investment securities held-to-maturity	**331,890**	182,966
Total interest and similar income	**10,385,085**	6,838,961
Amounts due to customers	**4,198,162**	3,159,929
Amounts due to financial institutions	**1,675,653**	1,162,041
Repurchase transactions	**150,103**	28,805
Other interest expenses	**141,606**	136,128
Total interest and similar expense	**6,165,524**	4,486,903

7 Fee and commission income and expense

In thousand Armenian drams	2015	2014
Cash operations	**133,290**	36,971
Wire transfer fees	**99,947**	147,122
Plastic cards operations	**503,065**	500,699
Other fees and commissions	**7,572**	18,427
Total fee and commission income	**743,874**	703,219
Cash operations	**3,991**	5,908
Wire transfer fees	**75,237**	90,074
Fee for maintenance of correspondent accounts	**24,863**	20,289
Other expenses	**5,074**	3,452
Total fee and commission expense	**109,165**	119,723

8 Net trading income

In thousand Armenian drams	2015	2014
Gains less losses from transactions in foreign currencies	**263,001**	281,294
Gains less losses from derivative instruments	**-**	(194,132)
Total net trading income	**263,001**	87,162

9 Other income

In thousand Armenian drams	2015	2014
Fines and penalties received	**713,467**	494,720
Reversal of previously recognised impairment of repossessed assets	**-**	351,013
Foreign currency translation net gains of non-trading assets and liabilities	**82,192**	260,356
Income from sale of repossessed assets	**-**	28,820
Income from sale of fixed assets	**-**	476
Insurance compensation	**162,547**	-
Guarantees and other credit related commitments	**20,548**	7,762
Other income	**10,831**	71,442
Total other income	**989,585**	1,214,589

In 2014 a valuation has been carried out by independent valuators for the Bank’s repossessed assets, which have been previously impaired. The valuations showed an increase in the value of the Bank’s properties. The main reason for this increase is the fact that the valuation techniques used are based on the values of the real estate in USD. The increase in the exchange rates of USD caused the increase in the values of real estate. (see note 4.2). In 2015 the valuations have resulted in impairment, which is reflected in note 21.

10 Impairment charge

In thousand Armenian drams	2015	2014
Loans and advances to customers (Note 16)	**975,629**	208,034
Other assets (Note 22)	**25,017**	61,345
Total impairment charge	**1,000,646**	269,379

11 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	**2,224,848**	1,875,021
Staff training costs	**9,392**	6,034
Total staff costs	**2,234,240**	1,881,055

12 Other expenses

In thousand Armenian drams	2015	2014
Operating lease	**219,835**	204,840
Fixed assets maintenance (buildings, intangibles, etc)	**179,163**	164,782
Taxes, other than income tax, duties	**322,889**	229,354
Impairment of repossessed assets	**135,691**	-
Advertising and representative expenses	**132,261**	132,782
Communications	**57,095**	55,174
Losses from disposal of fixed assets	**7,043**	-
Business trip expenses	**23,958**	22,369
Expenses related to payment systems	**140,769**	118,017
Security	**154,429**	136,480
Consulting and other services	**58,809**	15,400
Office supplies	**25,783**	24,330
Penalties paid	**13,085**	1,987
Other expenses	**190,289**	160,506
Total other expense	**1,661,099**	1,266,021

13 Income tax expense

In thousand Armenian drams	2015	2014
Current tax	**33,206**	-
Deferred tax	**139,926**	158,776
Total income tax expense	**173,132**	158,776

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	**388,339**		458,573	
Income tax at the rate of 20%	**77,668**	**20**	91,715	20
Other taxable income	**12,321**	**3**	9,142	2
Non-deductible expenses	**69,797**	**18**	42,043	9
Foreign exchange (gains)/losses	**(12,034)**	**(3)**	15,876	4
Derecognition of unused tax losses carried forward	**25,380**	**7**	-	-
Income tax expense	**173,132**	**45**	158,776	35

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams

	2014	**Recognized in profit or loss**	**Recognized in equity**	**2015**
Loans and advances to customers	**126,571**	**63,379**	**-**	**189,950**
Repossessed assets	**15,259**	**27,138**	**-**	**42,397**
Intangible assets	**1,189**	**(1,189)**	**-**	**-**
Other liabilities	**25,136**	**12,347**	**-**	**37,483**
Other assets	**14,188**	**(14,188)**	**-**	**-**
Tax losses carried forward	**227,764**	**(227,764)**	**-**	**-**
Total deferred tax assets	**410,107**	**(140,277)**	**-**	**269,830**
Investments held-to-maturity	**(400)**	**-**	**-**	**(400)**
Securities available-for-sale	**(17,687)**	**-**	**(4,047)**	**(21,734)**
Revaluation of the PPE	**(35,687)**	**584**	**-**	**(35,103)**
Contingent liabilities	**(3,316)**	**(974)**	**-**	**(4,290)**
Other assets	**(1,189)**	**(2,906)**	**-**	**(4,095)**
Amounts due from other financial institutions	**(5,082)**	**3,647**	**-**	**(1,435)**
Total deferred tax liability	**(63,361)**	**351**	**(4,047)**	**(67,057)**
Total deferred tax asset	**346,746**	**139,926**	**(4,047)**	**202,773**

In thousand Armenian drams

	2013	Recognized in profit or loss	Recognized in equity	2014
Loans and advances to customers	64,310	62,261	-	126,571
Repossessed assets	66,767	(51,508)	-	15,259
Intangible assets	1,901	(712)	-	1,189
Other liabilities	13,924	11,212	-	25,136
Other assets	-	14,188	-	14,188
Tax losses carried forward	431,713	(203,949)	-	227,764
Total deferred tax assets	578,615	(168,508)	-	410,107
Investments held-to-maturity	(400)	-	-	(400)
Securities available-for-sale	(12,238)	-	(5,449)	(17,687)
Revaluation of the PPE	(36,271)	584	-	(35,687)
Contingent liabilities	(5,009)	1,693	-	(3,316)
Other assets	(3,682)	2,493	-	(1,189)
Amounts due from other financial institutions	(10,044)	4,962	-	(5,082)
Total deferred tax liability	(67,644)	9,732	(5,449)	(63,361)
Total deferred tax asset	510,971	(158,776)	(5,449)	346,746

14 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Cash on hand	**2,413,152**	1,891,090
Correspondent account with the CB of Armenia	**11,360,010**	11,294,100
Correspondent account with other banks	**536,122**	868,505
Included in cash and cash equivalents	**14,309,284**	14,053,695

As of 31 December 2015 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 20% of certain obligations of the Bank, denominated in foreign currency and amounts to 10,283,000 AMD thousand (2014: AMD 9,765,886 thousand, 2% and 20%). 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, correspondent account, mandatory reserve deposits are non-interest bearing.

As of 31 December 2015 the amounts of correspondent accounts in amounts of AMD 446,575 thousand (83%) were due from four commercial banks (2014: AMD 768,091 thousand (88%) were due from three commercial banks).

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

- repayment of AMD 721,928 thousand loan by transfer of property rights on pledge (2014: AMD 1,136,322 thousand).

15 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Deposited funds	**420,000**	420,000
Loans and advances to financial institutions	**186,340**	1,674,113
Total amounts due from other financial institutions	**606,340**	2,094,113

Loans and deposits are not impaired or overdue.

All deposits in banks have more than 90 days of maturity.

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

As of 31 December 2015, the Bank had a concentration of loans represented by AMD 186,340 thousand, due from one RA financial institutions.

16 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans to customers	**59,028,741**	55,139,088
Overdrafts and credit lines	**3,254,314**	3,341,123
Loans utilised by credit cards	**980,415**	1,003,570
	63,263,470	59,483,781
Less allowance for loan impairment	**(2,562,573)**	(1,571,000)
Total loans to customers	**60,700,897**	57,912,781

As of 31 December 2015 the weighted average effective interest rates on loans to customers were 22.77% for loans in AMD (2014: 19.71%), 18.45% for loans in USD (2014 15.21%), 12.6% for loans in EUR (2014: 10.15%).

As of 31 December 2015, the Bank had a concentration of loans represented by AMD 19,601,812 thousand due from the ten largest third party entities and parties related with them (31% of gross loan portfolio) (2014: AMD 18,235,320 thousand or 31%) An allowance of AMD 1,524,790 thousand (2014: AMD 1,756,773 thousand) was made against these loans.

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
Privately held companies	**30,058,124**	30,459,215
Individuals	**29,727,640**	24,804,708
Sole proprietors	**3,477,706**	4,219,858
	63,263,470	59,483,781
Less allowance for loan impairment	**(2,562,573)**	(1,571,000)
Total loans and advances to customers	**60,700,897**	57,912,781

Loans to individuals comprise the following products:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Mortgage loans	**3,226,905**	3,168,416
Consumer loans	**25,903,081**	20,430,732
Car loans	**282,109**	777,996
Other	**315,545**	427,564
Total loans and advances to individuals (gross)	**29,727,640**	24,804,708

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

In thousand Armenian drams	Privately held companies	Individuals	Sole proprietors	2015 Total
At 1 January 2015	**1,198,788**	**290,554**	**81,658**	**1,571,000**
Charge/(recovery) for the year	**514,230**	**648,950**	**(187,551)**	**975,629**
Amounts written off	**(195,719)**	**(1,196,530)**	**(252,451)**	**(1,644,700)**
Recoveries	**410,349**	**831,935**	**418,360**	**1,660,644**
At 31 December 2015	**1,927,648**	**574,909**	**60,016**	**2,562,573**
Individual impairment	**1,752,968**	**76,694**	**21,081**	**1,850,743**
Collective impairment	**174,680**	**498,215**	**38,935**	**711,830**
	1,927,648	**574,909**	**60,016**	**2,562,573**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**12,615,431**	**268,626**	**67,395**	**12,951,452**

In thousand Armenian drams	Privately held companies	Individuals	Sole proprietors	2014 Total
At 1 January 2014	1,012,147	160,639	25,143	1,197,929
Charge/(recovery) for the year	(147,454)	393,867	(38,379)	208,034
Amounts written off	(569,748)	(361,299)	(67,939)	(998,986)
Recoveries	903,843	97,347	162,833	1,164,023
At 31 December 2014	1,198,788	290,554	81,658	1,571,000
Individual impairment	974,637	44,968	41,692	1,061,297
Collective impairment	224,151	245,586	39,966	509,703
	1,198,788	290,554	81,658	1,571,000
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	8,044,111	246,125	223,170	8,513,406

The maturity analysis of loan portfolio is presented in note 33. Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 34. The information on related party balances is disclosed in Note 30. The information on the fair values is disclosed in note 31.

In December 2015 the Bank sold loans with a carrying amount of AMD 1,941,258 thousand. The loss at the amount of AMD 502,788 thousand from this transaction is shown in the Statement of profit or loss and other comprehensive income under the item Loss from sale of loans.

17 Investments available for sale

in thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Unquoted investments		
Shares of Armenian companies	**35,966**	35,966
Shares of OECD countries companies	**934**	934
Quoted investments		
Shares of OECD countries companies	**119,017**	98,876
Total investments available for sale	**155,917**	135,776

Unquoted available-for-sale equity instruments in Armenian companies are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments.

18 Held-to-maturity investments

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Government bonds	**3,480,837**	-
Corporate bonds	**5,036**	-
Bonds issued by international organisations	**205,420**	100,233
Total investments held to maturity	**3,691,293**	100,233

Held-to-maturity securities upon profitability and maturity terms:

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
			%	Maturity
Corporate bonds	**14.7**	**2018**	-	-
Government bonds	**10.68-15.99**	**2023-2032**	-	-
Bonds issued by international organisations	**9.7-12.0**	**2016**	7.94	2016

As of 31 December 2015 debt securities held-to-maturity at value of AMD 384,953 thousands (2014: AMD 2,309,262 thousand) were pledged to third parties in sale and repurchase agreements for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 27).

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computers	Vehicles	Other PPE	Total
COST/REVALUED AMOUNT						
At January 1, 2014	4,318,772	436,506	1,182,177	96,261	655,958	6,689,674
Additions	3,152	58,307	71,567	-	91,799	224,825
Disposals	-	(106,550)	(1,030)	(7,644)	(3,968)	(119,192)
Reclassification	-	-	(6,604)	-	(2,146)	(8,750)
At December 31, 2014	**4,321,924**	**388,263**	**1,246,110**	**88,617**	**741,643**	**6,786,557**
Additions	**2,822**	**10,794**	**53,281**	**-**	**99,813**	**166,710**
Disposals	**-**	**-**	**(157,900)**	**-**	**(16,375)**	**(174,275)**
At December 31, 2015	**4,324,746**	**399,057**	**1,141,491**	**88,617**	**825,081**	**6,778,992**
ACCUMULATED DEPRECIATION						
At January 1, 2014	457,640	347,122	547,880	59,201	333,872	1,745,715
Depreciation charge	82,511	6,954	165,609	8,571	54,962	318,607
Disposals	-	(106,550)	-	(7,314)	(2,828)	(116,692)
Reclassification	-	-	(4,187)	-	(988)	(5,175)
At December 31, 2014	**540,151**	**247,526**	**709,302**	**60,458**	**385,018**	**1,942,455**
Depreciation charge	**82,612**	**8,431**	**108,792**	**8,205**	**59,969**	**268,009**
Disposals	**-**	**-**	**(146,197)**	**-**	**(14,159)**	**(160,356)**
At December 31, 2015	**622,763**	**255,957**	**671,897**	**68,663**	**430,828**	**2,050,108**
CARRYING VALUE						
At December 31, 2015	**3,701,983**	**143,100**	**469,594**	**19,954**	**394,253**	**4,728,884**
At December 31, 2014	**3,781,773**	**140,737**	**536,808**	**28,159**	**356,625**	**4,844,102**
At January 1, 2014	**3,861,132**	**89,384**	**634,297**	**37,060**	**322,086**	**4,943,959**

Revaluation of assets

The land and buildings owned by the Bank were evaluated as at 31 December 2008 by an independent appraiser, using a combination of the market, income and cost methods resulting in a revaluation of AMD 300,832 thousand. Management has based their estimate of the fair value of the buildings on the results of the independent appraisal. On 31 December 2014 the independent appraiser presented new revaluation reports, however the amounts did not differ significantly from the previous appraisal results.

The management believes that at 31 December 2015 the fair value of the land and buildings does not differ significantly from their revalued amounts.

The net book value of land and buildings that would have been recognized under the historic cost method is AMD 3,565,602 thousand, as at 31 December 2015 (2014: AMD 3,645,175 thousand).

Reclassifications

The capitals assets, which are no longer used by the Bank and are intended to be disposed of are reclassified as other assets.

Fully depreciated items

As of 31 December 2015 fixed assets included fully depreciated and amortized assets with cost of AMD 678,654 thousand (2014: AMD 560,336 thousand).

Fixed assets in the phase of installation

As of 31 December 2015 and 2014 there are not fixed assets included in the phase of installation, which are not amortized and are classified in accordance with their type.

Restrictions on title of fixed assets

As of 31 December 2015 and 2014 the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2015 and 2014 the Bank had no contractual commitments on fixed assets.

20 Intangible assets

In thousand Armenian drams	Licenses	Acquired software	Other	Total
COST				
At January 1, 2014	106,066	183,298	56,875	346,239
Additions	52,677	37,876	-	90,553
At December 31, 2014	**158,743**	**221,174**	**56,875**	**436,792**
Additions	**20,829**	**42,856**	**-**	**63,685**
Disposals	**(408)**	**-**	**-**	**(408)**
At December 31, 2015	**179,164**	**264,030**	**56,875**	**500,069**
AMORTISATION				
At January 1, 2014	71,405	24,413	40,838	136,656
Amortisation charge	15,780	22,908	4,982	43,670
At December 31, 2014	**87,185**	**47,321**	**45,820**	**180,326**
Amortisation charge	**25,419**	**21,335**	**4,981**	**51,735**
Reclassifications	**(18,826)**	**18,826**	**-**	**-**
At December 31, 2015	**93,778**	**87,482**	**50,801**	**232,061**
CARRYING VALUE				
At December 31, 2015	**85,386**	**176,548**	**6,074**	**268,008**
At December 31, 2014	**71,558**	**173,853**	**11,055**	**256,466**
At January 1, 2014	**34,661**	**158,885**	**16,037**	**209,583**

Contractual commitments

As of 31 December 2015 the Bank had contractual commitments on intangible assets totalling AMD 25,115 thousand payable in next periods (2014: AMD 34,410 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

Restrictions on title of intangible assets

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

21 Repossessed assets

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Immovable property	**3,350,833**	3,558,510
Other property	**315,154**	267,260
Total repossessed assets	**3,665,987**	3,825,770

The immovable and other property have passed to the Bank as a result of defaults of borrowers. The management is in the process of negotiating with potential buyers the terms of disposal of repossessed property. The Bank intends to sale the assets within one year.

As of December 31, 2015 the Bank has recognised impairment loss of AMD 135,691 thousand (2014: a reversal previously recognised impairment loss of AMD 351,013 thousand (Note 9)).

22 Other assets

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Amounts receivable	**1,697,707**	448,262
Total other financial assets	**1,697,707**	448,262
Prepayments and debtors	**99,796**	90,498
Other assets	**56,053**	5,725
Other prepaid taxes	**5,545**	5,232
Materials	**86,826**	67,387
	248,220	168,842
Allowance for impairment in respect of other non-financial assets	**(4,233)**	(751)
Total non-financial assets	**243,987**	168,091
Total other assets	**1,941,694**	616,353

As of December 31, 2015 amounts receivable include a receivable in the amount of AMD 1,451,250 thousand, relating to sale of loans (see note 16). The receivable has been fully repaid in January 2016.

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

In thousand Armenian drams	Total
At January1, 2014	3,049
Charge for the year	61,345
Amounts written off	(79,822)
Recoveries	16,179
At December 31, 2014	**751**
Charge for the year	**25,017**
Amounts written off	**(25,092)**
Recoveries	**3,557**
At December 31, 2015	**4,233**

23 Amounts due to financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Obligations of the CBA	**3,860,125**	4,054,404
Correspondent accounts of other banks	**1,993,765**	2,432,262
Loans and deposits from other financial institutions	**14,614,814**	12,024,049
Loans from other international financial institutions	**172,985**	1,193,534
Loans under repurchase agreements	**300,150**	1,932,115
Current accounts of other financial institutions	**38,981**	62,553
Total amounts due to financial institutions	**20,980,820**	21,698,917

As of 31 December 2015 the obligations of CBA include loans received within the scope of Small and medium business financing program, Mortgage loan financing program and Small hydro-energetic stations' financing program of German-Armenian fund in the amount of AMD 3,860,125 thousand (2014: AMD 4,054,404 thousand).

Loans and deposits from international financial institutions include loans from European Bank for Reconstruction and Development, which have variable interest rates.

As of 31 December 2015 loans and deposits from other financial institutions include time deposits from the Bank's shareholder Creditbank S.A.L in amount of AMD 1,161,450 thousand (2014: AMD 1,140,591). Mentioned amounts carry fixed interest rates.

As of 31 December 2015 the weighted average effective interest rates on amounts due to financial institutions was 9.94% for borrowings in AMD (2014: 9.52%), 7.51% for borrowings in USD (2014: 6.62%).

As of 31 December 2015 loans under repurchase agreements are secured with the Bank's securities held to maturity (Note 27).

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

24 Amounts due to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Government of the RA		
Loans received	**9,501**	25,865
Time deposits	**126,063**	38,675
	135,564	64,540
Corporate customers		
Current/Settlement accounts	**2,288,969**	3,070,759
Time deposits	**3,479,445**	6,377,417
	5,768,414	9,448,176
Retail customers		
Current/Demand accounts	**5,601,362**	2,972,211
Time deposits	**41,555,425**	35,907,162
	47,156,787	38,879,373
Total amounts due to customers	**53,060,765**	48,392,089

All customer deposits carry fixed interest rates.

Loans received from RA government include loans received within the scope of "Small and medium business financing", "Consumer Loan Financing" and "Other financing" programs.

As of 31 December 2015 included in amounts due to customers are deposits amounting to AMD 1,123,003 thousand held as security against guarantees issued and loans in amount of AMD 1,104,908 thousand and AMD 18,095 thousand respectively (2014: AMD 667,794 thousand for guarantees issued and loans in amount of AMD 633,657 thousand and AMD 34,137 thousand respectively). The fair value of those deposits approximates their carrying amount.

As of 31 December 2015 the aggregate balance of top ten customers (excluding Government of the RA) of the Bank (including related parties, see Note 30) amounts to AMD 8,426,404 thousand (2014: AMD 9,446,560 thousand) or 19% of total corporate and retail customer accounts (2014: 22%).

As of 31 December 2015 the weighted average effective interest rate on amounts due to customers was 16.69% for amounts attracted in AMD (2014: 13.84%), was 8.3% for amounts attracted in USD (2014: 8.29%), 5.49% for amounts attracted in EUR (2014: 6.15%).

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

25 Subordinated debt

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

Subordinated debt from the shareholder CreditBank sal, which was outstanding as at 31 December 2014, has been issued on 31 July 2012 in the amount of USD 4,000 thousand at 7% per annum. During 2015 it has been converted to Bank's share capital.

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

26 Other liabilities

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Accounts payables	**64,804**	91,657
Due to personnel	**185,786**	121,150
Total other financial liabilities	***250,590***	*212,807*
Tax payable, other than income tax	**23,113**	112,296
Other	**81,835**	53,492
Total other non-financial liabilities	***104,948***	*165,788*
Total other liabilities	**355,538**	378,595

27 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2015	2014	**2015**	2014
Investment securities held to maturity (Note 18,23)	**384,953**	2,309,262	**300,150**	1,932,115
	384,953	2,309,262	**300,150**	1,932,115

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

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

28 Equity

As at 31 December 2015 the Bank's registered and paid-in share capital was AMD 13,696,300 thousand. In accordance with the Bank's statues, the share capital consists of 273,926 ordinary shares, all of which have a par value of AMD 50,000 each.

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

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
	Paid-in share capital	**% of total paid-in capital**	Paid-in share capital	% of total paid-in capital
CreditBank sal	**13,696,300**	**100**	11,816,300	100
	13,696,300	**100**	11,816,300	100

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

In 2015 the shareholders of the Bank increased its share capital by AMD 1,880,000 thousand by the way of conversion of the subordinated debt into equity (2014: AMD 1,000,000 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.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

29 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Therefore, the Bank has not made any respective provision related to such tax and legal matters.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the 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	**1,326,705**	1,299,410
Guarantees	**630,038**	358,605
Letters of credit	**119,764**	-
Total credit related commitments	**2,076,507**	1,658,015

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

Operating lease commitments – Bank as a lessee

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

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Not later than 1 year	**199,360**	184,576
Later than 1 year and not later than 5 years	**549,509**	569,648
Later than 5 year	**123,200**	-
Total operating lease commitments	**872,069**	754,224

Contractual commitments

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

Insurance

The insurance industry in Armenia is still in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. But in spite of it, the property of the Bank is insured (Buildings, transportation facilities, etc.) and additionally starting from 01.01.2014 the Bank has also Banker's Blanket Bond (BBB) insurance.

30 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 ultimate controlling party of the Bank is Mr. Tarek J. Khalife, who is also a controlling party of the CreditBank S.A.L. (the parent of the Bank).

All members of the "ANELIK BANK" CJSC's Board of directors are representatives of CreditBank S.A.L., which gives the latter the power to control the decisions of the Bank.

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

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 and parties related with them	**Key management personnel and parties related with them**	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Assets				
Cash and cash equivalents				
At January 1	**186,612**	-	148,497	-
Increase	**13,258,326**	-	23,952,353	-
Decrease	**(13,398,218)**	-	(23,914,238)	-
At December 31	**46,720**	-	186,612	-
Loans				
Loans outstanding at January 1, gross	**-**	**106,320**	-	34,104
Loans issued during the year	**-**	**387,375**	-	216,541
Loan repayments during the year	**-**	**(312,038)**	-	(144,325)
Loans outstanding at December 31, gross	**-**	**181,657**	-	106,320
Less: allowance for loan impairment	**-**	**(1,817)**	-	(1,063)
Loans outstanding at December 31	**-**	**179,840**	-	105,257
Liabilities				
Amounts due to financial institutions				
Deposits at January 1	**4,005,877**	-	3,901,133	-
Deposits received during the year	**38,694,564**	-	43,303,563	-
Deposits repaid during the year	**(38,485,834)**	-	(43,198,819)	-
Deposits at December 31	**4,214,607**	-	4,005,877	-
Amounts due to customers				
Deposits at January 1	-	**402,196**	-	106,318
Deposits received during the year	-	**2,194,035**	-	1,310,927
Deposits repaid during the year	-	**(2,127,390)**	-	(1,015,049)
Deposits at December 31	-	**468,841**	-	402,196
Subordinate debt	**-**	**-**	1,901,359	-
Statement of profit or loss and other comprehensive income				
Income				
Interest income	-	**18,290**	-	8,108
Commission income	-	**704**	-	234
Expenses				
Interest expense	**260,780**	**35,901**	209,834	23,702
Commission expense	**-**	**-**	10	-
Impairment charge for credit losses	**-**	**754**	**-**	722

The loans issued to directors and other key management personnel (and close family members) during the year have interest rates of 9-18% (2014: 12-18%), depending on the loan type. The loans advanced to the directors and key management personnel during the year are collateralised by cash and real estate.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and bonuses	**531,576**	441,777
Total key management compensation	**531,576**	441,777

31 Fair value measurement

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

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

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

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

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 fixed assets and repossessed assets. 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, the Bank's Management verifies 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.

31.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2015				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	-	14,309,284	-	14,309,284	14,309,284
Amounts due from other financial institutions	-	606,340	-	606,340	606,340
Loans and advances to customers	-	60,700,897	-	60,700,897	60,700,897
Investments held to maturity	-	3,325,798	-	3,325,798	3,691,293
Securities pledged under repurchase agreements	-	309,949	-	309,949	384,953
Other financial assets	-	1,697,707	-	1,697,707	1,697,707
			-		
FINANCIAL LIABILITIES	-		-		
Amounts due to financial institutions	-	20,980,820	-	20,980,820	20,980,820
Amounts due to customers	-	53,060,765	-	53,060,765	53,060,765
Other financial liabilities	-	250,590	-	250,590	250,590

In thousand Armenian drams	As of 31 December 2014				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	14,053,695	-	14,053,695	14,053,695
Amounts due from other financial institutions	-	2,094,113	-	2,094,113	2,094,113
Loans and advances to customers	-	57,912,781	-	57,912,781	57,912,781
Investments held to maturity	-	100,233	-	100,233	100,233
Securities pledged under repurchase agreements	-	2,034,251	-	2,034,251	2,309,262
Other financial assets	-	448,262	-	448,262	448,262
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	21,698,917	-	21,698,917	21,698,917
Amounts due to customers	-	48,392,089	-	48,392,089	48,392,089
Subordinate debt	-	1,901,359	-	1,901,359	1,901,359
Other financial liabilities	-	212,807	-	212,807	212,807

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.

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. The carrying amount of loans approximates their fair value.

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

Investment securities held to maturity

Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. The measurement of fair value of securities issued by the RA Ministry of Finance and corporate bonds of Armenian companies is based on the yield curve set by the CBA, according to which as of December 31, 2015 the profitability of debt securities with six months duration comprise 8.08%.

Due to financial institutions and customers

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

Other 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.

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams				2015
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Quoted equity investments	**119,017**	**-**	**-**	**119,017**
Total	**119,017**	**-**	**-**	**119,017**
FINANCIAL LIABILITIES	**-**	**-**	**-**	**-**
NET FAIR VALUE	**119,017**	**-**	**-**	**119,017**

In thousand Armenian drams	Level 1	Level 2	Level 3	2014 Total
FINANCIAL ASSETS				
Quoted equity investments	98,876	-	-	98,876
Total	98,876	-	-	98,876
FINANCIAL LIABILITIES	-	-	-	-
NET FAIR VALUE	98,876	-	-	98,876

Unquoted equity investments

The fair value of Bank's unquoted equity investments cannot be reliably measured and is therefore excluded from this disclosure. (See note 17)

31.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	**Level 1**	**Level 2**	**Level 3**	**2015** **Total**
NON FINANCIAL ASSETS				
Property plant and equipment				
Buildings and land	**-**	**-**	**4,301,879**	**4,301,879**
Total assets	**-**	**-**	**4,301,879**	**4,301,879**
NET FAIR VALUE	**-**	**-**	**4,301,879**	**4,301,879**

In thousand Armenian drams	Level 1	Level 2	Level 3	2014 Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Buildings and land	-	-	4,299,057	4,299,057
Total assets	-	-	4,299,057	4,299,057
NET FAIR VALUE	-	-	4,299,057	4,299,057

Fair value measurements in Level 3

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

In thousand Armenian drams	**2015** **Property plant equipment**	2014 Property plant equipment
NON FINANCIAL ASSETS		
Balance as of 1 January	**4,299,057**	4,295,905
Purchases	**2,822**	3,152
Fair value as at 31 December	**4,301,879**	4,299,057

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 Management of the Bank 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 mentioned property in question, including plot size, location, encumbrances and current use and other.

32 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 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		Amounts offset		As of December 31, 2015 — Related amounts that have not been offset in the statement of financial position	
	Gross amount of financial assets	**Gross financial assets**	**Net amounts presented**	**Financial instruments**	**Net**
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 27)	**384,953**	**-**	**384,953**	**(300,150)**	**84,803**
	384,953	**-**	**384,953**	**(300,150)**	**84,803**

In thousand Armenian drams		Amounts offset		As of December 31, 2014 — Related amounts that have not been offset in the statement of financial position	
	Gross amount of financial assets	Gross financial assets	Net amounts presented	Financial instruments	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 27)	2,309,262	-	2,309,262	(1,932,115)	377,147
	2,309,262	-	2,309,262	(1,932,115)	377,147

33 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 34.3 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	14,309,284	-	-	*14,309,284*	-	-	-	14,309,284
Amounts due from other financial institutions	489,134	6,009	21,756	*516,899*	86,916	2,525	*89,441*	606,340
Loans and advances to customers	1,979,137	2,647,012	9,519,040	*14,145,189*	38,153,347	8,402,361	*46,555,708*	60,700,897
Investments available for sale	155,917	-		*155,917*			-	155,917
Investments held to maturity	-	-	205,420	*205,420*	5,036	3,480,837	*3,485,873*	3,691,293
Securities pledged under repurchase agreements	-	-	-	-	-	384,953	*384,953*	384,953
Other financial assets	1,697,707	-	-	*1,697,707*	-	-	-	1,697,707
	18,631,179	2,653,021	9,746,216	*31,030,416*	38,245,299	12,270,676	*50515975*	81,546,391
LIABILITIES								
Amounts due to financial institutions	7,082,172	4,204,492	6,574,961	*17,861,625*	1,330,883	1,788,312	*3,119,195*	20,980,820
Amounts due to customers	13,421,075	8,415,450	26,969,497	*48,806,022*	2,880,233	1,374,510	*4,254,743*	53,060,765
Other financial liabilities	250,590	-	-	*250,590*	-	-	-	250,590
	20,753,837	12,619,942	33,544,458	*66,918,237*	4,211,116	3,162,822	7,373,938	74,292,175
Net position	(2,122,658)	(9,966,921)	(23,798,242)	*(35,887,821)*	34,034,183	9,107,854	43,142,037	7,254,216
Accumulated gap	(2,122,658)	(12,089,579)	(35,887,821)		(1,853,638)	7,254,216		

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	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
ASSETS								
Cash and cash equivalents	14,053,695	-	-	*14,053,695*	-	-	-	14,053,695
Amounts due from other financial institutions	1,685,064	240,996	32,364	1,958,424	85,327	50,362	*135,689*	2,094,113
Loans and advances to customers	496,854	612,847	4,144,156	5,253,857	32,083,046	20,575,878	*52,658,924*	57,912,781
Investments available for sale	135,776	-	-	*135,776*	-	-	-	135,776
Investments held to maturity	-	-	-	-	100,233	-	*100,233*	100,233
Securities pledged under repurchase agreements	-	-	-	-	-	2,309,262	*2,309,262*	2,309,262
Other financial assets	448,262	-	-	*448,262*	-	-	-	448,262
	16,819,651	853,843	4,176,520	21,850,014	32,268,606	22,935,502	55,204,108	77,054,122
LIABILITIES								
Amounts due to financial institutions	9,233,382	2,781,094	4,821,526	*16,836,002*	3,662,957	1,199,958	*4,862,915*	21,698,917
Amounts due to customers	10,470,281	8,790,467	22,524,701	*41,785,449*	5,836,154	770,486	*6,606,640*	48,392,089
Subordinated debt	-	-	-	-	-	1,901,359	*1,901,359*	1,901,359
Other financial liabilities	91,657	121,150	-	*212,807*	-	-	-	212,807
	19,795,320	11,692,711	27,346,227	58,834,258	9,499,111	3,871,803	13,370,914	72,205,172
Net position	(2,975,669)	(10,838,868)	(23,169,707)	(36,984,244)	22,769,495	19,063,699	41,833,194	4,848,950
Accumulated gap	(2,975,669)	(13,814,537)	(36,984,244)		(14,214,749)	4,848,950		

34 Risk management

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

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

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

Risk management structure

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

Board of Directors

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank Bank.

Deputy Chairman of the Management board-Risk Manager

Deputy chairman of the Management board is responsible for effective risk management system and its uninterrupted operation.

Risk Management Department

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

Asset and Liability Management Committee

The asset and liability management committee is responsible for liquidity and market risk management, management of the Bank's assets and liabilities, and making decision in the frames of its authorities with regard to the above mentioned risks.

Internal audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Controlling Unit, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

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

Excessive risk concentration

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

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

34.1 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. The Bank, based on the credit risk management policy, established by the Board, applies various methods to manage and prevent 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 implemented by the Risk Management Department, based on the policies approved by the Board, and reported to the Board of Directors regularly.

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.

34.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

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

In thousand Armenian drams	Armenia	OECD countries	Other non-OECD countries	Total
Cash and cash equivalents	**13,788,966**	**399,856**	**120,462**	**14,309,284**
Amounts due from other financial institutions	**605,126**	**-**	**1,214**	**606,340**
Loans and advances to customers	**60,399,023**	**-**	**301,874**	**60,700,897**
Investments available for sale	**35,966**	**119,951**	**-**	**155,917**
Investments held to maturity	**3,485,873**	**205,420**	**-**	**3,691,293**
Securities pledged under repurchase agreements	**384,953**	**-**	**-**	**384,953**
Other financial assets	**246,194**	**1,451,250**	**263**	**1,697,707**
As at 31 December 2015	**78,946,101**	**2,176,477**	**423,813**	**81,546,391**
As at 31 December 2014	75,946,526	781,522	326,074	77,054,122

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 institutions	Manufacturing	Trade	Service	Construction	Consumer sector	Other	Total
Cash and cash equivalents	**14,309,284**	**-**	**-**	**-**	**-**	**-**	**-**	**14,309,284**
Amounts due from other financial institutions	**606,340**	**-**	**-**	**-**	**-**	**-**	**-**	**606,340**
Loans and advances to customers	**-**	**7,524,979**	**11,251,119**	**7,483,642**	**512,851**	**29,070,007**	**4,858,299**	**60,700,897**
Investments available for sale	**155,917**	**-**	**-**	**-**	**-**	**-**	**-**	**155,917**
Investments held to maturity	**3,691,293**	**-**	**-**	**-**	**-**	**-**	**-**	**3,691,293**
Securities pledged under repurchase agreements	**384,953**	**-**	**-**	**-**	**-**	**-**	**-**	**384,953**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,697,707**	**1,697,707**
As at 31 December 2015	**19,147,787**	**7,524,979**	**11,251,119**	**7,483,642**	**512,851**	**29,070,007**	**6,556,006**	**81,546,391**
As at 31 December 2014	18,693,079	6,316,223	13,120,559	7,007,386	415,356	24,474,434	7,027,085	77,054,122

34.1.2 Risk limit control and mitigation policies

According to the policies approved by the Board 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 Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors within the framework of the Bank's strategic development program, while Investment Committee monitors and approves monthly credit risk by product, industry sector, level of investment, limits on the amount of risk accepted and measures to reduce the credit risk.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits approved by the Board and covering on- and off-balance sheet exposures. 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

In accordance with the approved by the Board credit risk management policy 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;
- Charges over business assets such as premises, equipment, inventory and accounts receivable;
- Charges over precious metals and cars;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured. 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. Generally no collaterals are required for provision of loans and advances to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of gross 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	**37,101,891**	31,376,055
Loans collateralized by guarantees of enterprises	**2,346,907**	155,748
Loans collateralized by shares of other companies	**76,501**	3,389,698
Loans collateralized by equipment	**3,206,002**	3,005,316
Loans collateralized by gold and precious metals	**4,749,414**	3,918,733
Loans collateralized by cash	**653,052**	498,672
Other collateral	**7,567,556**	10,033,099
Unsecured loans	**7,562,147**	7,106,460
Total loans and advances to customers (gross)	**63,263,470**	59,483,781

Credit-related commitments

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

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

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

34.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**2015**	2014
Loans and advances to customers (secured)		
Privately held companies	**1%**	1%
Individuals	**1.63%**	1%
Sole proprietors	**1%**	1%
Loans and advances to customers (unsecured)		
Privately held companies	**1.6%**	1%
Individuals	**1.9%**	1%
Sole proprietors	**3.7%**	1%

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					
Privately held companies	**10,573**	**14,046**	**7,800**	**11,908**	**44,327**
Individuals	**305,702**	**120,053**	**158,824**	**560,642**	**1,145,221**
Sole proprietors	**26,959**	**25,979**	**44,773**	**134,904**	**232,615**
Total	**343,234**	**160,078**	**211,397**	**707,454**	**1,422,163**

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					
Privately held companies	13,360	55,558	59,036	15,025	142,979
Individuals	140,150	62,834	54,499	199,242	456,725
Sole proprietors	54,961	56,842	4,417	65,467	181,687
Total	208,471	175,234	117,952	279,734	781,391

34.2 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 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.

34.2.1 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 Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015, including the effect of hedging instruments. At 31 December 2015 the Bank did not own fixed rate available-for-sale financial assets.

		2015		2014
Currency	**Change in %**	**Sensitivity of net interest income**	Change in %	Sensitivity of net interest income
USD	**2%**	**(2,097)**	2%	(22,391)
USD	**-2%**	**2,097**	-2%	22,391

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 Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

		2015		2014
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**10%**	**(87,621)**	10%	(16,422)
EUR	**10%**	**87,621**	10%	(45,942)
USD	**-10%**	**(31,180)**	-10%	16,422
EUR	**-10%**	**31,180**	-10%	45,942

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	**11,129,727**	**3,129,321**	**50,236**	**14,309,284**
Amounts due from other financial institutions	**437,921**	**168,419**	**-**	**606,340**
Loans and advances to customers	**14,038,176**	**46,662,721**	**-**	**60,700,897**
Investments available for sale	**155,917**	**-**	**-**	**155,917**
Investments held to maturity	**3,691,293**	**-**	**-**	**3,691,293**
Securities pledged under repurchase agreements	**384,953**	**-**	**-**	**384,953**
Other financial assets	**69,303**	**1,609,956**	**18,448**	**1,697,707**
	29,907,290	**51,570,417**	**68,684**	**81,546,391**
LIABILITIES				
Amounts due to financial institutions	**6,692,598**	**14,280,731**	**7,491**	**20,980,820**
Amounts due to customers	**15,471,208**	**37,570,384**	**19,173**	**53,060,765**
Other financial liabilities	**241,859**	**8,731**	**-**	**250,590**
	22,405,665	**51,859,846**	**26,664**	**74,292,175**
Net position as at 31 December 2015	**7,501,625**	**(284,439)**	**42,020**	**7,254,216**
Credit related commitments as at 31 December 2015	**1,287,979**	**788,528**	**-**	**2,076,507**
Total financial assets as at December 31 2014	29,817,747	47,088,305	148,070	77,054,122
Total financial liabilities as at December 31 2014	24,357,531	47,711,944	135,697	72,205,172
Net position as at 31 December 2014	5,460,216	(623,639)	12,373	4,848,950
Credit related commitments as at 31 December 2014	888,599	769,416	-	1,658,015

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.

34.3 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, according to the approved by the Board risk management policy and liquidity risk management directions, applies various methods to manage liquidity risk and meet the liquidity demands. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Armenia.

As at 31 December, these ratios were as follows:	Not audited	
	2015, %	2014, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**21.07**	17.49
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**168.18**	162.98

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 33 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.

Analysis of financial liabilities by remaining contractual maturities is presented below.

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**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to financial institutions	**7,104,913**	**4,999,016**	**8,277,344**	**1,886,525**	**1,871,950**	**24,139,748**
Amounts due to customers	**14,201,027**	**8,990,847**	**29,021,154**	**3,874,728**	**2,961,958**	**59,049,714**
Other financial liabilities	**250,590**	**-**	**-**	**-**	**-**	**250,590**
Total undiscounted non-derivative financial liabilities	**21,556,530**	**13,989,863**	**37,298,498**	**5,761,253**	**4,833,908**	**83,440,052**
Credit related commitments	**19,197**	**304,546**	**887,606**	**813,827**	**48,891**	**2,076,507**

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
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to financial institutions	10,052,266	2,866,199	4,956,697	3,762,234	3,164,132	24,801,528
Amounts due to customers	11,108,042	9,357,861	23,925,358	6,540,802	1,783,362	52,715,425
Subordinated debt	-	-	-	-	2,256,711	2,256,711
Other financial liabilities	91,657	121,150	-	-	-	212,807
Total undiscounted non-derivative financial liabilities	21,251,965	12,345,210	28,882,055	10,303,036	7,204,205	79,986,471
Credit related commitments	38,278	112,185	507,055	992,145	8,352	1,658,015

34.4 Operational risk

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

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

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

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

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

35 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 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, 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.

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 weighted 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	**As of December 31, 2015**	As of December 31, 2014
Tier 1 capital	**11,042,409**	8,954,792
Tier 2 capital	**80,976**	1,866,558
Total regulatory capital	**11,123,385**	10,821,350
Risk-weighted assets	**89,386,078**	84,194,176
Capital adequacy ratio	**12.44%**	12.85%

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 2014 the Board of RA Central Bank decided to establish the minimum size of total capital at 30,000,000 thousand Armenian drams for the Bank and new banks, as of 1 January 2017 and after that period.

The Bank's shareholder intends to continue the Bank's activity in the RA financial institutions market after January 1, 2017 as well.