Financial Statements and Independent Auditor's Report

Closed Joint Stock Company "Artsakhbank"

31 December 2015

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Independent auditor's report

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To the Shareholders and Board of Directors of Closed Joint Stock Company "Artsakhbank":

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of matter

We draw attention to notes 36, 37 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

Knar Petrosyan
Auditor

Grant Thornton CJSC
20 April, 2016
Yerevan

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2015**	Year ended December 31, 2014
Interest and similar income	6	**10,312,436**	10,136,069
Interest and similar expense	6	**(6,615,340)**	(5,948,302)
Net interest income		**3,697,096**	4,187,767
Fee and commission income	7	**418,983**	492,999
Fee and commission expense	7	**(93,077)**	(101,700)
Net fee and commission income		**325,906**	391,299
Net trading income	8	**523,576**	150,769
Other income	9	**549,925**	535,319
Impairment charge	10	**(5,903,641)**	(3,494,760)
Net loss from investments available-for-sale		**(292)**	-
Foreign currency translation net gains/ (losses) on non-trading assets and liabilities		**(29,659)**	162,953
Staff costs	11	**(1,914,344)**	(2,018,641)
Depreciation of property plant and equipment	21	**(460,097)**	(473,387)
Amortization of intangible assets	22	**(22,666)**	(21,095)
Other expenses	12	**(948,108)**	(1,218,848)
Loss before income tax		**(4,182,304)**	(1,798,624)
Income tax (expense)/compensation	13	**7,955**	(110,704)
Loss for the year		**(4,174,349)**	(1,909,328)
Other comprehensive income for the year		**-**	-
Total comprehensive loss for the year		**(4,174,349)**	(1,909,328)

The accompanying notes on pages 7 to 56 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	**12,781,907**	9,488,360
Trading securities	15	**-**	450,206
Amounts due from other financial institutions	16	**2,257,793**	645,980
Derivative financial assets		**3,416**	-
Investments available for sale	17	**29,964**	115,036
Investments held to maturity	18	**61,368**	3,732
Securities pledged under repurchase agreements	19	**8,691,709**	6,270,000
Loans and advances to customers	20	**6c3,510,814**	63,214,508
Property, plant and equipment	21	**3,616,649**	4,072,402
Intangible assets	22	**77,927**	92,861
Repossessed assets	23	**2,257,733**	2,434,389
Prepaid income taxes		**271,013**	232,297
Other assets	24	**437,915**	633,870
TOTAL ASSETS		**93,998,208**	87,653,641
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to other financial institutions	25	**26,455,300**	19,098,299
Amounts due to customers	26	**50,079,670**	53,052,173
Trading liabilities	16	**844,308**	322,095
Derivative financial assets		**3,214**	-
Deferred income tax liabilities	13	**74,875**	82,830
Subordinated debt	27	**5,305,313**	3,924,401
Other liabilities	28	**219,177**	483,143
Total liabilities		**82,981,857**	76,962,941
Equity			
Share capital	29	**11,061,150**	6,561,150
Statutory general reserve		**657,233**	657,233
Other reserves		**1,541,289**	1,541,289
Retained earnings/(accumulated loss)		**(2,243,321)**	1,931,028
Total equity		**11,016,351**	10,690,700
TOTAL LIABILITIES AND EQUITY		**93,998,208**	87,653,641

The financial statements from pages 3 to 56 were signed by the Bank's Executive Director and Chief Accountant on 20 April, 2016.

Arthur Mkhitaryan
Executive Director

Ruzan Khachatryan
Chief Accountant

The accompanying notes on pages 7 to 56 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of PPE	Retained earnings/ (accumulated loss)	Total
Balance as of January 1, 2014	6,561,150	626,818	1,541,289	3,870,771	12,600,028
Distribution to reserve	-	30,415	-	(30,415)	-
Transactions with owners	-	30,415	-	(30,415)	-
Loss for the year	-	-	-	(1,909,328)	(1,909,328)
Other comprehensive income:	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(1,909,328)	(1,909,328)
As of December 31, 2014	**6,561,150**	**657,233**	**1,541,289**	**1,931,028**	**10,690,700**
Increase in share capital	**4,500,000**	**-**	**-**	**-**	**4,500,000**
Transactions with owners	**4,500,000**	**-**	**-**	**-**	**4,500,000**
Loss for the year	**-**	**-**	**-**	**(4,174,349)**	**(4,174,349)**
Other comprehensive income:	**-**	**-**	**-**	**-**	**-**
Total comprehensive loss for the year	**-**	**-**	**-**	**(4,174,349)**	**(4,174,349)**
Balance as of December 31, 2015	**11,061,150**	**657,233**	**1,541,289**	**(2,243,321)**	**11,016,351**

The accompanying notes on pages 7 to 56 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 (restated)
Cash flows from operating activities		
Loss before tax	**(4,182,304)**	(1,798,624)
Adjustments for		
Amortization and depreciation allowances	**482,763**	494,482
(Gain)/loss from disposal of PPE	**3,203**	(925)
Impairment expenses	**5,903,641**	3,494,760
Foreign currency translation net (gains)/losses of non-trading assets and liabilities	**29,659**	(162,953)
Interests receivable	**(1,408)**	(879,661)
Interests payable	**86,554**	53,681
Net gains from changes in fair value of derivative instruments	**(34,312)**	-
Cash flows from operating activities before changes in operating assets and liabilities	**2,287,796**	1,200,760
Increase in operating assets		
Amounts due from other financial institutions	**(1,656,547)**	3,640,415
Purchase of investment securities	**(1,387,498)**	(325,317)
Loans and advances to customers	**(5,678,100)**	949,304
Repossessed assets	**558,468**	507,750
Other assets	**151,942**	(429,509)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**7,091,024**	(3,870,212)
Amounts due to customers	**(3,176,374)**	(2,324,147)
Derivative instruments	**34,110**	-
Other liabilities	**(287,116)**	358,120
Net cash used in operating activities before income tax	**(2,062,295)**	(292,836)
Income tax paid	**(38,716)**	(169,459)
Net cash used in operating activities	**(2,101,011)**	(462,295)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(155,070)**	(622,014)
Disposal of property, plant and equipment	**-**	95,332
Purchase of intangible assets	**(7,732)**	(19,310)
Net cash used in investing activities	**(162,802)**	(545,992)
Cash flow from financing activities		
Subordinated debt	**1,380,911**	2,929,951
Long term loans	**(310,241)**	(777,813)
Increase in share capital	**4,500,000**	-
Net cash from financing activities	**5,570,670**	2,152,138
Net increase in cash and cash equivalents	**3,306,857**	1,143,851
Cash and cash equivalents at the beginning of the year	**9,488,360**	7,623,519
Effect of exchange rate changes on cash and cash equivalents	**(13,310)**	720,990
Cash and cash equivalents at the end of the year (Note 14)	**12,781,907**	9,488,360

Supplementary information:		
Interest received	**10,311,028**	9,256,408
Interest paid	**(6,528,786)**	(5,894,621)

The accompanying notes on pages 7 to 56 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

“Artsakhbank”(the “Bank”) is a Closed Joint Stock Company incorporated in the Republic of Armenia in 1996. The Bank is regulated by the legislation of RA and conducts its business under license number 75, granted on 14 August 1996 by the Central Bank of Armenia (the “CBA”).

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.

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

The head office of the Bank is located in the Republic of Nagorno Karabakh; its 7 branches are located in Yerevan and 15 branches in Nagorno Karabakh. The registered office of the Bank is located on 3 Kievyan str., 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 consolidated financial statements of the Bank.

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

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

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

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

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

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

- *IFRS 14 Regulatory Deferral Accounts.*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Disclosure Initiative (Amendments to IAS 1).*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Net trading income

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

4.2 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are 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 EUR	**528.69**	577.47

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in 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.

4.5 Precious metals

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

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

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet 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 cost, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Bank classified its financial assets into the following categories: financial instruments at fair value through profit or loss, receivables and loans, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

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

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

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.8 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

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

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

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

4.11 Leases

Finance – Bank as lessor

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

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

Operating - Bank as leasee

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

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation except land and buildings, which are stated at fair values.

The buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	**20**	**5**
Computers	**2**	**50**
Vehicles	**5**	**20**
Equipment	**5**	**20**

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

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

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

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 balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

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

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 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 cost and fair value less costs to sell.

4.15 Grants

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

4.16 Borrowings

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

4.17 Financial guarantees

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

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

4.18 Provisions

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

4.19 Equity

Share capital

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

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.

4.20 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

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

Classification of investment securities

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

Related party transactions

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

Impairment of loans and receivables

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

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

Tax legislation

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

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	**9,184,882**	8,740,020
Debt securities available-for-sale	**788,192**	830,060
Amounts due from other financial institutions	**22,368**	6,575
Reverse repurchase transactions	**117,557**	214,185
Interest accrued on impaired financial assets	**199,437**	345,229
Total interest and similar income	**10,312,436**	10,136,069
Amounts due to customers	**4,806,825**	4,170,872
Amounts due to financial institutions	**1,086,180**	1,483,995
Repurchase transactions	**722,335**	293,435
Total interest and similar expense	**6,615,340**	5,948,302

7 Fee and commission income and expense

In thousand Armenian drams	**2015**	2014
Payment, transfer and other services	**259,482**	336,942
Plastic cards operations	**140,789**	137,718
Guarantees and letters of credit	**18,712**	18,339
Total fee and commission income	**418,983**	492,999
Payment, transfer and other services	**14,797**	45,444
Plastic cards operations	**78,280**	56,256
Total fee and commission expense	**93,077**	101,700

8 Net trading income

In thousand Armenian drams	2015	2014
Gains less losses from foreign currency transactions	**428,276**	224,917
Net gain/(loss) from changes in fair value of trading assets and liabilities	**7,826**	(40,806)
Net gain/(loss) on derivative instruments	**53,161**	(6,000)
Net gains/(loss) from changes in fair value of derivative instruments	**34,313**	(27,342)
Total net trading income	**523,576**	150,769

9 Other income

In thousand Armenian drams	2015	2014
Fines and penalties received	**513,271**	445,706
Net income from operations with precious metals	**-**	61,349
Net income from sale of other assets	**7,607**	925
Income from grants (Note 28)	**1,138**	1,138
Other income	**27,909**	26,201
Total other income	**549,925**	535,319

10 Impairment charge/(reversal)

In thousand Armenian drams	2015	2014
Loans and advances to customers (Note 20)	**5,818,320**	3,255,846
Other assets (Note 24)	**46,366**	238,914
Amounts due from other financial institutions (Note 16)	**40,969**	-
Instruments available for sale (Note 17)	**(2,014)**	-
Total impairment charge for credit losses	**5,903,641**	3,494,760

11 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees	**1,913,754**	2,007,860
Other expenses	**590**	10,781
Total staff costs	**1,914,344**	2,018,641

12 Other expenses

In thousand Armenian drams	2015	2014
Consulting and other services	**26,861**	14,300
Operating lease	**165,192**	173,733
Taxes, other than income tax, duties	**132,287**	138,236
Advertising costs	**46,563**	40,305
Insurance expenses	**1,532**	1,446
Impairment loss on foreclosed assets	**-**	215,442
Fixed assets maintenance	**176,662**	215,958
Communications	**73,437**	83,967
Cash collection expenses	**16,912**	17,687
Losses from operations with precious metals	**12,886**	-
Security	**83,831**	77,655
Deposit guarantee fund expenses	**57,287**	53,152
Office supplies	**34,999**	55,158
Business trip expenses	**8,624**	11,310
Loan extension expenses	**17,589**	17,053
Payment system services	**25,155**	17,796
Penalties paid	**6,577**	3,023
Net loss from disposal of property, plant and equipment	**3,203**	-
Other expenses	**58,511**	82,627
Total other expense	**948,108**	1,218,848

13 Income tax expense/(compensation)

In thousand Armenian drams	2015	2014
Deferred tax expense	**(7,955)**	110,704
Total income tax expense	**(7,955)**	110,704

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/(compensation) and accounting loss is provided below:

In thousand Armenian drams	2015	Effective rate (%)	2014	Effective rate (%)
Loss before tax	**(4,182,304)**		(1,798,624)	
Income tax at the rate of 20%	**(836,461)**	**(20)**	(359,725)	(20)
Taxable income	**16,959**	**-**	-	-
Non-deductible expenses	**13,633**	**-**	30,097	1
Foreign exchange losses	**5,932**	**-**	31,220	2
Non-taxable income	**(2,471)**	**(6)**	(7,023)	-
Effect of not recognized tax asset	**794,453**	**19**	416,135	23
Income tax expense/(compensation)	**(7,955)**	**(7)**	110,704	6

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2014	Recognized in profit or loss	As of December 31, 2015
Trading securities	**1,301**	**(1,301)**	**-**
Loans and advances to customers	**82,322**	**(11,077)**	**71,245**
Repossessed assets	**55,740**	**-**	**55,740**
Other liabilities	**43,153**	**(24,293)**	**18,860**
Tax asset carried forward	**416,135**	**794,453**	**1,210,588**
Total deferred tax assets	**598,651**	**757,782**	**1,356,433**
Tax asset evaluation	**(416,135)**	**(794,453)**	**(1,210,588)**
Total deferred tax assets	**182,516**	**(36,671)**	**145,845**
Amounts due from other financial institutions	**(969)**	**(662)**	**(1,631)**
Property, plant and equipment	**(253,167)**	**34,078**	**(219,089)**
Amounts due to customers	**(1,282)**	**1,282**	**-**
Other assets	**(9,928)**	**9,928**	**-**
Total deferred tax liability	**(265,346)**	**44,626**	**(220,720)**
Net deferred tax liability	**(82,830)**	**7,955**	**(74,875)**

In thousand Armenian drams	As of December 31, 2013	Recognized in profit or loss	As of December 31, 2014
Cash and cash equivalents	173,572	(173,572)	-
Trading securities	1,301	-	1,301
Loans and advances to customers	80,458	1,864	82,322
Repossessed assets	12,652	43,088	55,740
Other liabilities	30,207	12,946	43,153
Transferring tax losses	-	416,135	416,135
Total deferred tax assets	298,190	300,461	598,651
Valuation of tax asset	-	(416,135)	(416,135)
Total deferred tax assets	298,190	(115,674)	182,516
Amounts due from other financial institutions	(643)	(326)	(969)
Property, plant and equipment	(253,167)	-	(253,167)
Amounts due to customers	-	(1,282)	(1,282)
Other assets	(16,506)	6,578	(9,928)
Total deferred tax liability	(270,316)	4,970	(265,346)
Net deferred tax asset/ (liability)	27,874	(110,704)	(82,830)

As at 31 December 2015 net deferred tax assets for AMD 794,453 thousand (2014: AMD 416,135 thousand) were not recognized due to uncertainty of their future utilization.

14 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Cash on hand	**1,648,181**	821,997
Correspondent accounts with the CBA	**10,369,404**	8,551,635
Placements with other banks	**764,322**	114,728
Total cash and cash equivalents	**12,781,907**	9,488,360

As of 31 December 2015 correspondent account with Central Bank of Armenia includes 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 (2014: 2% of obligations denominated in Armenian drams and 20% of obligations of the Bank, denominated in foreign currency) and amounts to AMD 5,855,878 thousand (2014: AMD 6,451,048 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

Non-cash transactions performed by the Bank during 2015 represent the repayment of the loans in the amount of AMD 234,289 thousand by confiscation of collateral (2014: AMD 949,963 thousand).

15 Trading securities

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Trading securities issued by RA Government-unquoted	-	**450,206**
Total trading securities	-	**450,206**

Nominal interest rates and maturities of these securities are as follows:

In thousand Armenian drams	As of December 31, 2015		As of December 31, 2014	
	%	Maturity	%	Maturity
Securities issued by the Ministry of Finance of RA	-	-	**9.19-14.22**	**2016-2028**

16 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Deposited funds with CBA	**220,000**	220,000
Loans and deposits to financial institutions	**4,838**	38,135
Reverse repurchase agreements	**1,916,400**	314,154
Payment and settlement systems	**13,265**	9,697
Other	**103,290**	63,994
Total amounts due from other financial institutions	**2,257,793**	645,980

As of 31 December 2015 other accounts include guaranteed deposit for the Bank's membership to MasterCard payment system in the amount of AMD 65,062 thousand (2014: AMD 63,881 thousand).

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

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

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities of RA Government pledged under repurchase agreements	**1,977,574**	**1,916,400**	322,095	314,154
Total assets pledged under repurchase agreements	**1,977,574**	**1,916,400**	322,095	314,154

At 31 December 2015 securities pledged under repurchase agreements in the amount of AMD 844,308 thousand (2014: AMD 322,095 thousand) were repledged for the Bank's liabilities for repurchase agreements. These securities have been classified as securities pledged under repurchase agreements in the financial statements (Note 19), and the liability for the return of these securities was recognised as "Trading liability" and is measured at fair value.

The movement in allowance for impairment losses on amounts due from other financial institutions was as follows:

In thousand Armenian drams	**Total**
At January 1, 2014	**-**
Charge for the year	**-**
At December 31, 2014	**-**
Charge for the year	**40,969**
Amounts written off	**(40,969)**
At December 31, 2015	**-**

17 Investments available for sale

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
RA equity shares-unquoted	**31,457**	31,457
RA equity shares-quoted	**-**	87,086
Allowance for impairment for available for sale investments	**(1,493)**	(3,507)
Total investments available for sale	**29,964**	115,036

All debt securities have fixed coupons.

All unquoted RA equity shares are recorded at cost less allowances for impairment since their fair value cannot be reliably estimated.

The movement in allowance for impairment losses on investments available for sale was as follows:

In thousand Armenian drams	Total
At January 1, 2014	3,507
Charge for the year	-
At December 31, 2014	**3,507**
Reversal	**(2,014)**
At December 31, 2015	**1,493**

18 Held-to-maturity investments

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Unquoted investments		
Securities issued by the RA Government	**42,006**	3,732
RA non-governmental interest securities	**19,362**	-
Total investments held to maturity	**61,368**	3,732

Held-to-maturity investments by nominal interest rates and maturity date comprise:

In thousand Armenian drams	**2015**		2014	
	%	**Maturity**	%	Maturity
Securities issued by the RA Government	**10.00-13.09**	**2016-2020**	8.05-12.99	2015
RA non-governmental interest securities	**15.0**	**2016**	-	-

As at 31 December 2015 securities issued by the RA Government in the amount of AMD 5,491,001 thousand (2014: AMD 5,214,498 thousand) and RA non state securities in the amount of AMD 2,356,399 thousand (2014: AMD 733,407 thousand) were pledged as security for the Bank's liabilities of repurchase agreements (Note 19).

19 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**	
	As of December 31, 2015	As of December 31, 2014
Unquoted investments		
Securities issued by the RA Ministry of Finance (Note 18)	**5,491,001**	5,214,498
RA Government securities purchased and repledged under repurchase agreements (Note 16)	**844,309**	322,095
RA non state other securities (Note 18)	**2,356,399**	733,407
Total investments	**8,691,709**	6,270,000

Borrowings with securities pledged under reverse repurchase agreements amounted to AMD 7,765,981 thousand as at 31 December 2015 (2014: AMD 6,598,593 thousand) (Note 25).

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.

20 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans to customers	**55,876,700**	46,905,744
Factoring	**1,010,422**	1,468,589
Overdrafts	**9,110,357**	18,502,684
Financial lease receivables	**-**	126,691
	65,997,479	67,003,708
Less allowance for loan impairment	**(2,486,665)**	(3,789,200)
Total loans and advances to customers	**63,510,814**	63,214,508

As of 31 December 2015, accrued interest income included in loans and advances to customers amounted to AMD 2,179,172 thousand (2014: AMD 2,465,352 thousand).

As of 31 December 2015 the weighted average effective interest rates on loans and advances to customers was 17.77% for loans in AMD (2014: 18.38 %) and 13.21% for loans in USD, EUR and other freely convertible currencies (2014: 13.35%).

During the year ended at 31 December 2015 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2015 the carrying amount of such assets amounted to AMD 2,257,733 thousand (2014: AMD 2,434,389 thousand) (See Note 23). The Bank intends to sell these assets in a short period.

As of 31 December 2015 the Bank had a concentration of loans totalling to AMD 38,542,866 thousand due from the ten largest third party entities and parties related with them (58.4% of gross loan portfolio) (2014: AMD 27,342,722 thousand or 41% of gross loan portfolio). An allowance for impairment in the amount of AMD 1,512,574 thousand (2014: AMD 2,958,170 thousand) was made against these loans.

Loans and advances to customers by industries of economy may be specified as follows:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Manufacture	**3,229,267**	4,614,169
Agriculture	**601,326**	1,217,860
Construction	**4,095,165**	7,769,272
Trading	**3,064,278**	4,295,971
Transport and communication	**19,536**	117,283
Services	**2,467,687**	2,274,452
Consumer	**10,723,754**	14,358,040
Mortgage	**11,074,438**	12,575,622
Other sectors	**30,722,028**	19,781,039
	65,997,479	67,003,708
Less allowance for loan impairment	**(2,486,665)**	(3,789,200)
Total loans and advances to customers	**63,510,814**	63,214,508

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

2015

In thousand Armenian drams	Manufacture	Agriculture	Construction	Trading	Transport and communi-cation	Services	Consumer	Mortgage	Other sectors	Total
As of January 1, 2015	**186,229**	**237,298**	**1,509,631**	**169,381**	**14,624**	**16,594**	**1,224,290**	**125,756**	**305,397**	**3,789,200**
Charge for the year/ (reversal)	**1,005,789**	**(121,201)**	**2,301,816**	**320,261**	**39,757**	**943,804**	**851,220**	**718,735**	**(241,861)**	**5,818,320**
Amounts written off	**(1,275,501)**	**(109,521)**	**(2,809,772)**	**(482,899)**	**(55,555)**	**(808,936)**	**(2,012,006)**	**(804,892)**	**(10,952)**	**(8,370,034)**
Recovery	**277,073**	**87,184**	**148,493**	**151,968**	**4,952**	**50,247**	**351,022**	**177,400**	**840**	**1,249,179**
As of December 31, 2015	**193,590**	**93,760**	**1,150,168**	**158,711**	**3,778**	**201,709**	**414,526**	**216,999**	**53,424**	**2,486,665**
Individual impairment	**-**	**18,673**	**1,064,199**	**25,540**	**-**	**-**	**-**	**41,172**	**2,052**	**1,151,636**
Collective impairment	**193,590**	**75,087**	**85,969**	**133,171**	**3,778**	**201,709**	**414,526**	**175,827**	**51,372**	**1,335,029**
	193,590	**93,760**	**1,150,168**	**158,711**	**3,778**	**201,709**	**414,526**	**216,999**	**53,424**	**2,486,665**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**-**	**57,810**	**3,108,749**	**187,351**	**-**	**-**	**-**	**131,812**	**27,562**	**3,513,284**

2014

In thousand Armenian drams	Manufacture	Agriculture	Construction	Trading	Transport and communi-cation	Services	Consumer	Mortgage	Other sectors	Total
As of January 1, 2014	112,135	142,886	909,005	101,991	8,806	9,992	625,779	75,723	295,302	2,281,619
Charge for the year	194,802	132,422	601,764	513,809	122,645	8,262	897,992	89,948	694,202	3,255,846
Amounts written off	(144,945)	(82,300)	(51,842)	(556,643)	(168,083)	(31,550)	(838,085)	(394,818)	(684,114)	(2,952,380)
Recovery	24,237	44,290	50,704	110,224	51,256	29,890	538,604	354,903	7	1,204,115
As of December 31, 2014	186,229	237,298	1,509,631	169,381	14,624	16,594	1,224,290	125,756	305,397	3,789,200
Individual impairment	156,367	-	1,491,517	-	-	-	1,011,416	-	-	2,659,300
Collective impairment	29,862	237,298	18,114	169,381	14,624	16,594	212,874	125,756	305,397	1,129,900
	186,229	237,298	1,509,631	169,381	14,624	16,594	1,224,290	125,756	305,397	3,789,200
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,110,015	-	5,286,536	-	-	-	1,517,712	-	-	7,914,263

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
Individuals	**22,257,019**	28,499,829
Privately held companies	**15,102,036**	22,101,626
Sole proprietors	**1,008,910**	2,667,906
State owned enterprises	**27,629,514**	13,734,347
	65,997,479	67,003,708
Less allowance for loan impairment	**(2,486,665)**	(3,789,200)
Total loans and advances to customers	**63,510,814**	63,214,508

Loans to individuals comprise the following products:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Mortgage loans	**11,074,438**	12,553,504
Credit card loans	**3,361,309**	3,856,714
Consumer loans	**4,345,339**	4,146,222
Gold loans	**2,982,714**	3,402,511
Car loans	**34,392**	96,831
Agricultural	**432,358**	756,526
Other	**26,469**	3,687,521
Total loans and advances to individuals (gross)	**22,257,019**	28,499,829

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Gross investment in finance leases, receivable:		
Not later than 1 year	**-**	131,840
	-	131,840
Unearned future finance income on finance leases	**-**	(5,149)
Net investment in finance leases	**-**	126,691

The allowance for finance lease receivables are included in the allowance for loans and receivables and as of December 31, 2015 amounted to AMD 2,533 thousand.

Implied interest rate of the finance lease is 9%.

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

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

Credit, currency, liquidity risk analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

21 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer equipment	Vehicles	Equipment	Capital Investments	Total
COST OR REVALUED AMOUNT							
As of January 1, 2014	4,496,010	62,561	890,272	204,373	546,373	342,640	6,542,229
Additions	100,084	37,861	236,113	46,808	125,768	70,273	616,907
Disposals	-	-	(40,127)	(53,483)	(51,998)	(2,591)	(148,199)
Transfers	123,735	36,756	100	-	8,098	(168,689)	-
As of December 31, 2014	**4,719,829**	**137,178**	**1,086,358**	**197,698**	**628,241**	**241,633**	**7,010,937**
Additions	**35,843**	**8,198**	**34,314**	**44,353**	**12,500**	**19,862**	**155,070**
Disposals	**-**	**(18,241)**	**(61,360)**	**(14,207)**	**(29,856)**	**-**	**(123,664)**
Revaluation	**59,177**	**-**	**(6,357)**		**6,357**	**(59,177)**	**-**
Adjustments	**(147,523)**	**-**	**-**	**-**	**-**	**-**	**(147,523)**
As of December 31, 2015	**4,667,326**	**127,135**	**1,052,955**	**227,844**	**617,242**	**202,318**	**6,894,820**
ACCUMULATED DEPRECIATION							
As of January 1, 2014	1,349,912	30,555	693,882	121,861	327,827	-	2,524,037
Depreciation charge	206,271	10,389	148,703	28,035	79,989	-	473,387
Disposals	-	-	(20,653)	(11,871)	(26,365)	-	(58,889)
As of December 31, 2014	**1,556,183**	**40,944**	**821,932**	**138,025**	**381,451**	**-**	**2,938,535**
Depreciation charge	**217,699**	**8,357**	**130,752**	**22,844**	**80,445**	**-**	**460,097**
Disposals	**-**	**(18,241)**	**(61,360)**	**(11,026)**	**(29,834)**	**-**	**(120,461)**
Revaluation	**-**	**-**	**(6,357)**	**-**	**6,357**	**-**	**-**
As of December 31, 2015	**1,773,882**	**31,060**	**884,967**	**149,843**	**438,419**	**-**	**3,278,171**
CARRYING VALUE							
As of December 31, 2015	**2,893,444**	**96,075**	**167,988**	**78,001**	**178,823**	**202,318**	**3,616,649**
As of December 31, 2014	3,163,646	96,234	264,426	59,673	246,790	241,633	4,072,402
As of January1, 2014	3,146,098	32,006	196,390	82,512	218,546	342,640	4,018,192

Revaluation of assets

The buildings and land owned by the Bank were revalued by an independent appraiser as of 31 December 2011 using comparative, cost and income methods resulting in a revaluation of AMD 1,926,611 thousand. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

For the fair value hierarchy of PPE see note 32.3

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

Fully depreciated items

As at 31 December 2015 fixed assets included fully depreciated assets in amount of AMD 598,366 thousand (2014: AMD 799,836 thousand).

Fixed assets in the phase of installation

As of 31 December 2015 fixed assets included assets in the phase of installation in amount of AMD 141,841 thousand (2014: AMD 85,525 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As of 31 December 2015 the Bank had a contractual commitments totalling AMD 990 thousand (2014: AMD 13,139 thousand).

22 Intangible assets

In thousand Armenian drams	Licenses	Computer software	Other	Total
COST				
As of January 1, 2014	52,751	118,031	1,080	171,862
Additions	6,211	10,804	2,295	19,310
Disposals	(24,566)	-	-	(24,566)
As of December 31, 2014	**34,396**	**128,835**	**3,375**	**166,606**
Additions	**7,732**	**-**	**-**	**7,732**
Disposals	**(23,263)**	**(337)**	**-**	**(23,600)**
As of December 31, 2015	**18,865**	**128,498**	**3,375**	**150,738**
ACCUMULATED AMORTISATION				
As of January 1, 2014	40,678	35,914	624	77,216
Amortisation charge	7,145	13,842	108	21,095
Disposal	(24,566)	-	-	(24,566)
As of December 31, 2014	**23,257**	**49,756**	**732**	**73,745**
Amortisation charge	**6,885**	**15,673**	**108**	**22,666**
Disposals	**(23,263)**	**(337)**	**-**	**(23,600)**
As of December 31, 2015	**6,879**	**65,092**	**840**	**72,811**
CARRYING VALUE				
As of December 31, 2015	**11,986**	**63,406**	**2,535**	**77,927**
As of December 31, 2014	11,139	79,079	2,643	92,861
As of January1, 2014	12,073	82,117	456	94,646

Fully amortized items

As of 31 December 2015 intangible assets included fully amortized assets in amount of AMD 2,510 thousand (2014: AMD 3,552 thousand).

Restrictions on title of intangible assets

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

Contractual commitments

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

23 Repossessed assets

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

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Property	**2,179,467**	2,289,976
Vehicles	**10,751**	3,895
Other	**67,515**	140,518
Total	**2,257,733**	2,434,389

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

24 Other assets

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Prepayments and other debtors	**290,517**	381,024
Total other financial assets	**290,517**	381,024
Less allowance for impairment of financial assets	**(29,387)**	(10,397)
Total net other financial assets	**261,130**	370,627
Prepayments to suppliers	**11,257**	43,673
Precious metals	**121,616**	170,885
Materials	**20,062**	26,047
Other	**23,850**	22,638
Total non-financial assets	**176,785**	263,243
Total other assets	**437,915**	633,870

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

In thousand Armenian drams	**Total**
As of January 1, 2014	-
Charge for the year	238,914
Amounts written off	(286,660)
Recoveries	58,143
As of December 31, 2014	**10,397**
Charge for the year	**46,366**
Amounts written off	**(167,399)**
Recoveries	**140,023**
As of December 31, 2015	**29,387**

25 Amounts due to other financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Repurchase agreements from the CBA	**7,765,981**	6,598,593
Loans from banks	**13,133,456**	7,418,028
Correspondent accounts of banks	**1,683,470**	804,307
Deposits from other financial institutions	**1,001,746**	1,530,099
Bank accounts of other financial institutions	**32,424**	31,323
Loans from other financial institutions	**2,802,842**	2,715,118
Other amounts	**35,381**	831
Total amounts due to other financial institutions	**26,455,300**	19,098,299

As at 31 December 2015 the loans from banks in amounts of AMD 10,512,415 thousand (80%) (2014: AMD 6,932,565 thousand due from five financial institutions (93%)) were due from four financial institutions.

As at 31 December 2015 deposits from other financial institutions in the amount of AMD 953,074 thousand (95%) (2014: AMD 1,352,874 thousand due from three financial institutions (88%)) were due from four financial institutions.

As at 31 December 2015 loans from other financial institutions in the amount of AMD 2,802,842 thousand (100%) (2014: AMD 2,578,797 thousand were due from two financial institutions (95%)) were due from two financial institutions.

All deposits and loans from banks and financial institutions have fixed interest rates.

As of 31 December 2015 the average effective interest rates on amounts due to the financial institutions was 8.16% for borrowings in AMD (2014: 8.91%) and 7.43% for borrowings in USD, EUR and other freely convertible currencies (2014: 5.67%).

The Bank did not have any defaults of principal, interest or other breaches with respect to its borrowings during the year (2014: nil).

26 Amounts due to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Government of the RA		
Current/Settlement accounts	**529,122**	-
Received loans	**227,872**	505,556
	756,994	505,556
Corporate customers		
Current/Settlement accounts	**4,342,483**	4,670,629
Time deposits	**9,895,431**	13,588,802
	14,237,914	18,259,431
Retail customers		
Current/Settlement accounts	**5,213,222**	5,287,833
Time deposits	**29,871,540**	28,999,353
	35,084,762	34,287,186
Total amounts due to customers	**50,079,670**	53,052,173

Customer deposits carry fixed rates.

As of 31 December 2015 included in payables to Government are loans in the amount of AMD 158,257 thousand (2014: AMD 225,135 thousand) attracted under the World Bank PIU on "Agriculture Finance Support Facility", as well as loans received within the scope of "Small and Medium business loan project" of German-Armenian fund in the amount of AMD 69,615 thousand (2014: AMD 280,421 thousand).

As of 31 December 2015 included in amounts due to customers are deposits amounting to AMD 3,231,114 thousand (2014: AMD 4,919,333 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates the carrying amount.

As of 31 December 2015 the aggregate balance of top two customers of the Bank (including related parties, see Note 31) amounts to AMD 13,188,102 thousand (2014: 14,808,438 thousand) or 24.14% of total customer accounts and subordinated debt (2014: 23.56%). The amount of top two customers does not include amounts due to RA Government.

As of 31 December 2015 the average effective interest rates on amounts due to customers was 8.7% for amounts attracted in AMD (2014: 11.91%) and 8.35% for amounts attracted in USD, EUR and other freely convertible currencies (2014: 9.03%).

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

27 Subordinate debt

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Subordinate debt from CBA	**-**	1,003,414
Subordinate debt from other organizations	**5,305,313**	2,920,987
Total subordinate debt	**5,305,313**	3,924,401

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.

The maturity for subordinate debt attracted from legal entities is set until 2020-2021.

As of 31 December 2015 average weighted interest rate of subordinated debt was 13.48% (2014: 13.34%), for borrowings in US dollar was 5.98% (2014: there were no liabilities in foreign currency).

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

28 Other liabilities

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Accounts payables	**85,599**	51,503
Due to personnel	**48,435**	178,470
Total other financial liabilities	**134,034**	229,973
Tax payable, other than income tax	**34,225**	33,570
Grants related to assets	**8,516**	9,654
Other	**42,402**	209,946
Total other non financial liabilities	**85,143**	253,170
Total other liabilities	**219,177**	483,143

Grants related to assets

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
At January 1	**9,654**	10,792
Recognition of income (Note 9)	**(1,138)**	(1,138)
As of December 31	**8,516**	9,654

29 Equity

As of 31 December 2015 the Bank’s registered and paid-in share capital was AMD 11,061,150 thousand (2014: AMD 6,561,150 thousand).

In accordance with the Bank’s statues, the share capital consists of 221,223 ordinary shares, all of which have a par value of AMD 50,000 each.

As of 31 December 2015 the Bank increased its share capital by AMD 4,500,000 thousand.

The respective shareholders of the Bank are:

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**
Armenia Business Fund	**4,500,000**	**40.7**	-	-
Sirmakes Vartan Nazareth	**2,830,150**	**25.6**	2,827,856	43.1
Kaprielyan Hrach-Nerses	**2,563,800**	**23.2**	2,565,410	39.1
Nersisyan Kamo Sergey	**354,750**	**3.2**	354,302	5.4
Selefyan Arden	**334,250**	**3.0**	334,619	5.1
Gabrielyan Inna Valeri	**328,100**	**2.9**	328,058	5.0
Other (5 shareholders in total)	**150,100**	**1.4**	150,905	2.3
	11,061,150	**100**	6,561,150	100

As of 31 December 2015, the Bank did not repurchase 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 of the Bank.

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 15% of the Bank's share capital reported in statutory books.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Undrawn loan commitments	**907,858**	1,373,744
Guarantees	**895,513**	1,379,793
Total commitments and contingent liabilities	**1,803,371**	2,753,537

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 other lease agreements for buildings and 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	**256,570**	166,332
1 - 5 years	**924,630**	488,174
Later than 5 years	**36,442**	223,017
Total operating lease commitments	**1,217,642**	877,523

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 21, 22.

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

31 Transactions with related parties

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

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

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

In thousand Armenian drams	2015		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				
Loans and advances to customers				
Loans outstanding at January 1	**4,069,057**	**43,017**	2,883,154	71,210
Loans issued during the year	**3,486,400**	**35,237**	2,559,755	97,926
Loan repayments during the year	**(3,162,717)**	**(53,789)**	(1,373,852)	(126,119)
Loans outstanding at December 31	**4,392,740**	**24,465**	4,069,057	43,017
Less: allowance for loan impairment	**(43,927)**	**(245)**	(80,826)	(430)
Loans outstanding at December 31	**4,348,813**	**24,220**	3,988,231	42,587
Amounts due from other financial institutions				
At January 1	**699**	**-**	502	-
Increase	**5,780,459**	**-**	3,333,480	-
Decrease	**(5,780,775)**	**-**	(3,333,283)	-
At December 31	**383**	**-**	699	-
Amounts due to other financial institutions				
At January 1	**759,387**	**-**	69,143	-
Increase	**11,633,472**	**-**	7,489,868	-
Decrease	**(10,725,120)**	**-**	(6,799,624)	-
At December 31	**1,667,739**	**-**	759,387	-
Amounts due to customers				
Deposits at January 1	**4,223,271**	**779,173**	4,437,873	711,635
Deposits received during the year	**29,990,077**	**746,189**	14,004,247	1,881,079
Deposits repaid during the year	**(30,580,073)**	**(860,201)**	(14,218,849)	(1,813,541)
Deposits at December 31	**3,633,275**	**665,161**	4,223,271	779,173
Subordinated debt at December 31	**850,667**	**-**	850,130	-
Other receivables	**48,4**	**-**	40	496
Guarantees issued	**-**	**41,119**	-	40,000
Statement of profit or loss and other comprehensive income				
Interest income	**624,720**	**2,874**	1,050,745	25,378
Interest expense	**415,808**	**50,313**	(409,706)	(12,978)
Impairment (charge)/reversal	**36,899**	**185**	(51,994)	282
Other expenses(lease)	**41,625**	**-**	44,061	-

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 to 13 years (2014: from 1 to 3 years) and have interest rates of 12-18% (2014: 10-24%). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and other short-term benefits	209,677	216,602
Total key management compensation	209,677	216,602

32 Fair value measurement

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

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

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

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

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

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

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

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	12,781,907	-	12,781,907	12,781,907
Amounts due from other financial institutions	-	2,257,793	-	2,257,793	2,257,793
Investments held to maturity	-	61,368	-	60,228	61,368
Securities pledged under repurchase agreements	-	7,847,400	-	7,538,874	7,847,400
Loans and advances to customers	-	63,510,814	-	63,510,814	63,510,814
Other financial assets	-	261,130	-	261,130	261,130

In thousand Armenian drams	As of 31 December 2015				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL LIABILITIES					
Amounts due to other financial institutions	**-**	**26,455,300**	**-**	**26,455,300**	**26,455,300**
Amounts due to customers	**-**	**50,079,670**	**-**	**50,079,670**	**50,079,670**
Subordinate debt	**-**	**5,305,313**	**-**	**5,305,313**	**5,305,313**
Other financial liabilities	**-**	**134,034**	**-**	**134,034**	**134,034**

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	-	9,488,360	-	9,488,360	9,488,360
Amounts due from other financial institutions	-	645,980	-	645,980	645,980
Loans and advances to customers	-	63,214,508	-	63,214,508	63,214,508
Investments held to maturity	-	3,732	-	3,732	3,732
Securities pledged under repurchase agreements	-	6,417,611	-	6,417,611	6,270,000
Other financial assets	-	370,627	-	370,627	370,627
FINANCIAL LIABILITIES					
Amounts due to other financial institutions	-	19,098,299	-	19,098,299	19,098,299
Amounts due to customers	-	53,052,173	-	53,052,173	53,052,173
Subordinate debt	-	3,924,401	-	3,924,401	3,924,401
Other financial liabilities	-	229,973	-	229,973	229,973

Amounts due from and to other financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 7.5 % to 24% per annum (2014: 5% to 24% per annum).

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

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. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Due to customers

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

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Derivative financial assets	**-**	**3,416**	**-**	**3,416**
Securities pledjed under repurchase agreements	**-**	**844,308**	**-**	**844,308**
Total	**-**	**847,724**	**-**	**847,724**
FINANCIAL LIABILITIES				
Derivative financial assets	**-**	**3,214**	**-**	**3,214**
Trading liabilities	**-**	**844,308**	**-**	**844,308**
Total	**-**	**847,522**	**-**	**847,522**
NET FAIR VALUE	**-**	**202**	**-**	**202**

In thousand Armenian drams	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Trading securities	-	450,206	-	450,206
RA equity investments-quoted	-	87,086	-	87,086
Total	-	537,292	-	537,292
FINANCIAL LIABILITIES				
Trading liabilities	-	322,095	-	322,095
Total	-	322,095	-	322,095
NET FAIR VALUE	-	215,197	-	215,197

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

Unquoted RA equity securities

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

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	**As of December 31, 2015**			
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Land and buildings	**-**	**-**	**4,667,326**	**4,667,326**
Total	**-**	**-**	**4,667,326**	**4,667,326**
NET FAIR VALUE	**-**	**-**	**4,667,326**	**4,667,326**

In thousand Armenian drams	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Land and buildings	-	-	4,719,829	4,719,829
Total	-	-	4,719,829	4,719,829
NET FAIR VALUE	-	-	4,719,829	4,719,829

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	**Land and buildings**	**Total**
NON FINANCIAL ASSETS		
Balance as at 1 January 2015	**4,719,829**	**4,719,829**
Purchases	**35,843**	**35,843**
Reclassification	**59,177**	**59,177**
Adjustments	**(147,523)**	**(147,523)**
Balance as at 31 December, 2015	**4,667,326**	**4,667,326**
NET FAIR VALUE	**4,667,326**	**4,667,326**

In thousand Armenian drams	Land and buildings	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2014	4,496,010	4,496,010
Purchases	223,819	223,819
Balance as at 31 December, 2014	4,719,829	4,719,829
NET FAIR VALUE	4,719,829	4,719,829

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 at each reporting date.

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

The land and buildings were revalued on 31 December 2011.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

33 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams					**As of December 31, 2015**
	Related amounts that were not offset in the statement of financial position				
	Gross financial assets/ liabilities	**Gross financial assets/ liabilities offset**	**Net amounts presented**	**Financial instruments not recognized in the statement of financial position**	**Net**
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 16)	**1,916,400**	**-**	**1,916,400**	**(1,977,574)**	**(61,174)**
FINANCIAL LIABILITIES					
Repurchase agreements (Note 16,18, 25)	**(8,610,289)**	**-**	**(8,610,289)**	**8,691,709**	**81,420**

In thousand Armenian drams					As of December 31, 2014
	Related amounts that were not offset in the statement of financial position				
	Gross financial assets/ liabilities	Gross financial assets/ liabilities offset	Net amounts presented	Financial instruments not recognized in the statement of financial position	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 16)	314,154	-	314,154	(322,095)	(7,941)
FINANCIAL LIABILITIES					
Repurchase agreements (Note 16,18, 25)	(6,598,593)	-	(6,598,593)	6,592,095	6,498

34 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 35.3 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	12,781,907	-	-	*12,781,907*	-	-	-	12,781,907
Amounts due from other financial institutions	2,257,793	-	-	*2,257,793*	-	-	-	2,257,793
Derivative financial assets	3,416	-	-	*3,416*	-	-	-	3,416
Investments available for sale	29,964	-	-	*29,964*	-	-	-	29,964
Investments held to maturity	24,914	-	19,363	*44,277*	12,742	4,349	*17,091*	61,368
Securities pledged under repurchase agreements	61,368	-	1,334,763	*1,396,131*	6,127,067	1,168,511	*7,295,578*	8,691,709
Loans and advances to customers	9,170,532	8,422,363	8,379,394	*25,972,289*	26,200,713	11,337,812	*37,538,525*	63,510,814
Other financial assets	261,130	-	-	*261,130*	-	-	-	261,130
	24,591,024	8,422,363	9,733,520	*42,746,907*	32,340,522	12,510,672	*44,851,194*	87,598,101
LIABILITIES								
Amounts due to other financial institutions	23,252,024	106,963	293,471	*23,652,458*	670,043	2,132,799	*2,802,842*	26,455,300
Loans and advances to customers	14,198,938	5,720,367	14,422,012	*34,341,317*	11,088,690	4,649,663	*15,738,353*	50,079,670
Trading liabilities	-	-	-	*-*	757,772	86,536	*844,308*	844,308
Derivative financial liability	3,214	-	-	*3,214*	-	-	-	3,214
Subordinate debt	-	-	-	*-*	2,922,347	2,382,966	*5,305,313*	5,305,313
Other liabilities	134,034	-	-	*134,034*			-	134,034
	37,588,210	5,827,330	14,715,483	*58,131,023*	15,438,852	9,251,964	*24,690,816*	82,821,839
Net position	(12,997,186)	2,595,033	(4,981,963)	*(15,384,116)*	16,901,670	3,258,708	*20,160,378*	4,776,262
Accumulated gap	(12,997,186)	(10,402,153)	(15,384,116)		1,517,554	4,776,262		

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	9,488,360	-	-	*9,488,360*	-	-	-	9,488,360
Trading securities	450,206	-	-	*450,206*	-	-	-	450,206
Amounts due from other financial institutions	608,794	-	-	*608,794*	37,186	-	*37,186*	645,980
Loans and advances to customers	7,948,629	9,162,979	15,516,540	*32,628,148*	19,788,465	10,797,895	*30,586,360*	63,214,508
Investments held to maturity	12	-	-	*12*	3,720	-	*3,720*	3,732
Investments available for sale	115,036	-	-	*115,036*	-	-	-	115,036
Securities pledged under repurchase agreements	122,158	753,927	842,671	*1,718,756*	3,547,879	1,003,365	*4,551,244*	6,270,000
Other financial assets	370,627	-	-	*370,627*	-	-	-	370,627
	19,103,822	9,916,906	16,359,211	*45,379,939*	23,377,250	11,801,260	*35,178,510*	80,558,449
LIABILITIES								
Amounts due to other financial institutions	11,518,215	3,590,795	1,602,237	*16,711,247*	1,295,393	1,091,659	*2,387,052*	19,098,299
Amounts due to customers	8,505,845	3,781,122	14,849,973	*27,136,940*	18,632,766	7,282,467	*25,915,233*	53,052,173
Trading liabilities	322,095	-	-	*322,095*	-	-	-	322,095
Subordinate debt	171,068	333,333	500,000	*1,004,401*	-	2,920,000	*2,920,000*	3,924,401
Other liabilities	229,973	-	-	*229,973*	-	-	-	229,973
	20,747,196	7,705,250	16,952,210	*45,404,656*	19,928,159	11,294,126	*31,222,285*	76,626,941
Net position	(1,643,374)	2,211,656	(592,999)	*(24,717)*	3,449,091	507,134	*3,956,225*	3,931,508
Accumulated gap	(1,643,374)	568,282	(24,717)		3,424,374	3,931,508		

35 Risk management

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

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

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

Risk management structure

The Board of 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.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

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 Audit Committee.

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 Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, 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, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

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

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

Excessive risk concentration

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

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

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk is managed in accordance with the Bank's credit policy and the internal legal acts regulating the sphere.

The risk management division implements daily monitoring of the loan portfolio, calculation of dynamics based on the structured series and analysis of the quality of loan portfolio by products and branches, which is used for forecasting the qualitative indicators of the loan portfolio. The risk management division also conducts monitoring of different loan types in accordance with approved procedures, and monitors also other loans if it is necessary in case of worsening of the borrower's creditability. The loans issued by the Bank are also approved by the risk management division in accordance with the requirements of internal legal acts for reducing the credit risk. The credit risk management and control are centralised in Risk Management Division and reported to the Executive Board regularly.

As of December 31, 2015 and 2014 the carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

35.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**12,781,907**	**-**	**-**	**12,781,907**
Amounts due from other financial institutions	**1,490,128**	**606,604**	**161,061**	**2,257,793**
Derivative financial assets	**3,416**	**-**	**-**	**3,416**
Investments available for sale	**29,964**	**-**	**-**	**29,964**
Held to maturity investments	**61,368**	**-**	**-**	**61,368**
Securities pledged under reverse repurchase agreements	**8,691,709**	**-**	**-**	**8,691,709**
Loans and advances to customers	**63,509,904**	**-**	**910**	**63,510,814**
Other assets	**261,130**	**-**	**-**	**261,130**
As of 31 December 2015	**86,829,526**	**606,604**	**161,971**	**87,598,101**
As of 31 December 2014	**80,555,839**	**1,931**	**679**	**80,558,449**

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

Industry sectors

The Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of December 31 2015 and 31 December 2014 is disclosed in Note 20.

35.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Credit Committee.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;

- Charges over business assets such as premises, inventories and receivables.
- Financial instruments, debt and equity shares.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. 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	**24,460,615**	30,316,616
Loans collateralized by gold	**2,980,959**	3,334,763
Loans collateralized by securities	**-**	468,378
Loans collateralized by guarantees of enterprises	**14,198**	8,449,922
Loans collateralized by vehicles	**263,517**	180,690
Loans collateralized by cash	**4,276,114**	3,807,773
Loans collateralized by inventories	**999,112**	1,860,985
Loans collateralized by equipment	**18,472**	1,417,166
Loans collateralized by governmental guarantees	**27,910,538**	14,563,144
Unsecured loans	**1,183,280**	1,478,237
Other collateral	**3,890,674**	1,126,034
Total loans and advances to customers (gross)	**65,997,479**	67,003,708

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

Credit-related commitments

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

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

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

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

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank estimates impairment for loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified approaching conservatively. 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
Industry	**6%**	1%
Agriculture	**14%**	27%
Construction	**9%**	1%
Trading	**5%**	5%
Transport and communication	**19%**	17%
Services	**8%**	1%
Consumer	**4%**	2%
Mortgage	**2%**	1%
Other	**1%**	2%

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

Past due but not individually 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 90 days	**91 to 270 days**	**Total**
Loans and advances to customers			
Industry	**51,628**	**57,941**	**109,569**
Agriculture	**25,979**	**30,840**	**56,819**
Construction	**-**	**8,190**	**8,190**
Trading	**48,585**	**172,970**	**221,555**
Transport and communication	**6,485**	**1,698**	**8,183**
Services	**34,714**	**23,366**	**58,080**
Consumer	**413,371**	**361,623**	**774,994**
Mortgage	**407,156**	**445,662**	**852,818**
Total	**987,918**	**1,102,290**	**2,090,208**

In thousand Armenian drams			As of December 31, 2014
	Less than 90 days	91 to 270 days	Total
Loans and advances to customers			
Industry	187,576	85,133	272,709
Agriculture	73,422	79,179	152,601
Construction	161,465	31,332	192,797
Trading	367,010	226,142	593,152
Transport and communication	13,560	44,697	58,257
Services	453,488	563,729	1,017,217
Consumer	745,625	361,176	1,106,801
Mortgage	821,731	310,342	1,132,073
	2,823,877	1,701,730	4,525,607

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

35.2.1 Market risk – Non-trading

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VaR methodologies.

The currency rates are monitored daily, based on which at the end of each month the currency rates are forecasted. The Board of Directors has set limits on positions by currency.

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

In thousand Armenian drams	**As of December 31, 2015**			As of December 31, 2014		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**5**	**21,440**	**21,440**	**5**	70,903	(70,903)
USD	**(5)**	**(21,440)**	**(21,440)**	**(5)**	(70,903)	70,903
EUR	**8**	**794**	**794**	**8**	(3,443)	3,443
EUR	**(8)**	**(794)**	**(794)**	**(8)**	3,443	(3,443)

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

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and cash equivalents	**7,169,964**	**5,568,926**	**43,017**	**12,781,907**
Amounts due from other financial institutions	**2,136,396**	**116,385**	**5,012**	**2,257,793**
Investments available for sale	**29,964**	**-**	**-**	**29,964**
Held to maturity investments	**61,368**	**-**	**-**	**61,368**
Securities pledged under reverse repurchase agreements	**6,964,308**	**1,727,401**	**-**	**8,691,709**
Loans and advances to customers	**22,089,989**	**41,420,825**	**-**	**63,510,814**
Other assets	**261,130**	**-**	**-**	**261,130**
	38,713,119	**48,833,537**	**48,029**	**87,594,685**
LIABILITIES				
Amounts due to financial institutions	**11,321,509**	**15,132,927**	**864**	**26,455,300**
Amounts due to customers	**20,697,544**	**29,377,092**	**5,034**	**50,079,670**
Trading liabilities	**844,308**	**-**	**-**	**844,308**
Subordinated debt	**3,853,376**	**1,451,937**	**-**	**5,305,313**
Other liabilities	**111,911**	**22,123**	**-**	**134,034**
	36,828,648	**45,984,079**	**5,898**	**82,818,625**
Total the effect of derivative financial instruments	**3,288,386**	**(3,288,184)**	**-**	**202**
Net position as of 31 December 2015	**5,172,857**	**(438,726)**	**42,131**	**4,776,262**
Commitments and contingent liabilities as of 31 December 2015	**1,641,432**	**161,939**	**-**	**1,803,371**
Total financial assets	41,609,376	38,882,451	66,622	80,558,449
Total financial liabilities	36,245,599	40,362,201	19,141	76,626,941
Net position as of 31 December 2014	5,363,777	(1,479,750)	47,481	3,931,508
Commitments and contingent liabilities as of 31 December 2014	2,392,101	361,436	-	2,753,537

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

35.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

	Not audited	
As at 31 December, these ratios were as follows:	**2015, %**	2014, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**17.6**	16.74
N22- Current liquidity ratio(Highly liquid assets /liabilities on demand)	**118.86**	105.05

Analysis of financial liabilities by remaining contractual maturities.

The table below summarizes the maturity profile of the Bank’s financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. See note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

In thousand Armenian drams	As of December 31, 2015					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to other financial institutions	**23,281,227**	**142,589**	**461,133**	**1,271,538**	**2,265,403**	**27,421,890**
Amounts due to customers	**14,322,238**	**5,915,541**	**15,087,934**	**13,535,120**	**4,756,381**	**53,617,214**
Trading liabilities	**-**	**-**	**-**	**757,772**	**86,536**	**844,308**
Subordinated debt	**51,730**	**100,122**	**458,892**	**5,295,535**	**2,462,460**	**8,368,739**
Other liabilities	**134,034**	**-**	**-**	**-**	**-**	**134,034**
Total undiscounted financial liabilities	**37,789,229**	**6,158,252**	**16,007,959**	**20,859,965**	**9,570,780**	**90,386,185**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**1,931,786**	**-**	**-**	**-**	**-**	**1,931,786**
Outflow	**(1,935,000)**	**-**	**-**	**-**	**-**	**(1,935,000)**
Պարտքային ռիսկ պարունակող պարտավորություններ	**908,977**	**528,443**	**18,952**	**346,999**	**-**	**1,803,371**
Total undiscounted financial liabilities as of December 31, 2014	25,725,597	8,816,283	22,687,333	25,658,185	14,347,673	97,235,071
Commitments and contingent liabilities as of December, 2014	1,426,885	35,228	1,290,931	493	-	2,753,537

The Bank has received significant funds from its shareholder and its related parties. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

35.4 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Bank. Operational risk is the risk of incompatibility of the Banks’ operations and procedures to the legislation in force or their breach, the lack of information of the Bank’s staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Bank. 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 operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

Legal risk: all the standard contract forms of the Bank are prepared by the Bank’s Legal Department by cooperating with the Bank’s appropriate departments and are approved by the Bank’s Executive Board. In the Bank’s day-to-day operations non-standard contracts between the Bank and third parties are allowed only in case of appropriate conclusion from the Banks Legal Department.

The IT risks are managed in accordance with internal legal acts.

The risk mitigation mechanisms for the process are:

- Regulation of all business processes by internal legal acts,
- Physical protection of the Bank's assets and critical documents (including loans contracts)
- Establishing and maintaining limits,
- Common preservation of property and records,
- Implementation and archiving of data journals,
- Implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Banks risks and supervises the Bank's activity and operational risks.

The Bank's correspondence with the standards is accompanied by the internal auditor's periodic observations. The results of those observations are discussed by the Bank's management's appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

36 Capital adequacy

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

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

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

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

	Not audited	
In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
Tier 1 capital	**6,954,106**	5,353,259
Tier 2 capital	**3,477,053**	3,702,473
Total regulatory capital	**10,431,159**	9,055,732
Risk-weighted assets	**52,789,266**	63,088,397
Capital adequacy ratio	**19.76%**	14,35 %

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.

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

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from January 1, 2009.

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

The Bank will implement the replenishment of the share capital to reach the requirement of the Central Bank of Armenia on the minimum size of the Total regulatory capital.

37 Events after the reporting period

According to the decision from the general meeting of the Bank’s Shareholders additional 94,000 ordinary shares have been issued in amount of AMD 4,700,000 thousand.

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