Byblos Bank Armenia CJSC

Financial Statements

for the year ended 31 December 2014
together with Independent auditors' report

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Independent auditors' report

To the Shareholders and Board of Directors of Byblos Bank Armenia closed joint-stock company

We have audited the accompanying financial statements of Byblos Bank Armenia closed joint-stock company, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our 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 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 present fairly, in all material respects, the financial position of Byblos Bank Armenia closed joint-stock company as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Emphasis of matter

We draw attention to Note 2 (b) to the financial statements, which describes that Byblos Bank Armenia CJSC is not in compliance with a prudential ratio set by the Central Bank of Armenia. Our opinion is not qualified in respect of this matter.

Ernst and Young CJSC

Partner (Audit department) Sergei Taskaev

On behalf of General Director H. Sarkisyan, Eric Hayrapetyan
(by power of attorney dated 31 July 2013)

13 March 2015

Statement of comprehensive income
for the year ended 31 December 2014

	Notes	2014 AMD'000	2013 AMD'000
Interest income	4	3,245,797	3,736,869
Interest expense	4	(2,317,641)	(2,345,494)
Net interest income		928,156	1,391,375
Fee and commission income	5	91,716	91,773
Fee and commission expense	6	(48,407)	(47,707)
Net fee and commission income		43,309	44,066
Net foreign exchange income	7	485,168	52,120
Net gain on available-for-sale financial assets		48,339	743
Other operating expenses, net	8	(71,568)	(24,632)
Operating income		1,433,404	1,463,672
Impairment losses	9	(1,305,819)	(725,150)
Personnel expenses		(699,910)	(618,389)
Other general administrative expenses	10	(518,795)	(505,545)
Loss before income tax		(1,091,120)	(385,412)
Income tax (expense) / benefit	11	(15,367)	36,184
Loss for the year		(1,106,487)	(349,228)
Other comprehensive (loss) / income for the year, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
Unrealised (losses) / gains on available-for-sale financial assets		(108,380)	242,043
Realised (losses) on available-for-sale financial assets reclassified to the statement of profit or loss		(48,339)	(743)
Income tax effect	11	31,344	(48,260)
Other comprehensive (loss) / income for the year, net of income tax		(125,375)	193,040
Total comprehensive loss for the year		(1,231,862)	(156,188)

The financial statements as set out on pages 3 to 49 were approved by management on 13 March 2015 and were signed on its behalf by:

Chief Executive Officer Ararat Ghukasyan

Head of Finance and Administration Hayk Stepanyan

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Financial Position as at 31 December 2014

	Notes	2014 AMD'000	2013 AMD'000
Assets			
Cash and cash equivalents	12	4,244,173	8,327,826
Available-for-sale financial assets	13		
- Held by the Bank		62,887	2,665,910
- Pledged under sale and repurchase agreements		3,118,896	773,337
Amounts due from banks	14	15,934,007	5,110,012
Loans to customers	15	28,434,633	24,105,161
Property, equipment and intangible assets	16	1,031,801	1,072,720
Other assets	17	460,760	560,565
Total assets		53,287,157	42,615,531
Liabilities			
Deposits and balances from banks	18	5,139,212	2,439,877
Amounts payable under repurchase agreements	19	3,057,139	750,641
Current accounts and deposits from customers	20	33,837,588	24,388,803
Other borrowed funds	21	3,348,533	5,841,164
Deferred tax liabilities	11	10,548	26,525
Other liabilities	22	146,824	189,346
Total liabilities		45,539,844	33,636,356
Equity			
Share capital	23	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		115,892	241,267
(Accumulated losses) / Retained earnings		(750,828)	355,659
Total equity		7,747,313	8,979,175
Total liabilities and equity		53,287,157	42,615,531

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Cash Flows for the year ended 31 December 2014

	Notes	*2014 AMD'000*	*2013 AMD'000*
Cash flows from operating activities			
Interest receipts		3,222,967	3,787,257
Interest payments		(2,080,936)	(2,532,539)
Fee and commission receipts		93,264	92,636
Fee and commission payments		(48,425)	(47,707)
Net receipts from available-for-sale financial assets		47,782	743
Net (payments)/receipts from foreign exchange		(65,585)	57,966
Tax payments (other than income tax)		(6,074)	(9,964)
Salaries and other payments to employees		(683,698)	(615,693)
Other general administrative expenses payments		(424,865)	(500,992)
Other operating expenses		(20,663)	(6,800)
(Increase)/decrease in operating assets			
Available-for-sale financial assets		152,497	(343,119)
Amounts due from banks		(9,590,991)	7,245,642
Loans to customers		(2,167,156)	(1,413,658)
Other assets		137,676	(156,862)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		2,174,126	(5,628,129)
Amounts payable under repurchase agreements		2,303,802	188,843
Current accounts and deposits from customers		4,966,508	(689,693)
Payments of other borrowed funds		(2,911,065)	(76,873)
Other liabilities		(129,125)	(14,601)
Net cash used in operating activities before income taxes paid		(5,029,961)	(663,543)
Income tax paid		(57,832)	(37,646)
Cash flows used in operations		(5,087,793)	(701,189)
Cash flows used in investing activities			
Net purchases of property and equipment and intangible assets		(101,245)	(45,704)
Cash flows used in investing activities		(101,245)	(45,704)
Net decrease in cash and cash equivalents		(5,189,038)	(746,893)
Effect of changes in exchange rates on cash and cash equivalents		1,105,403	103,777
Cash and cash equivalents at the beginning of the year		8,327,792	8,970,908
Cash and cash equivalents at the end of the year	12	4,244,157	8,327,792

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Changes in Equity for the year ended 31 December 2014

AMD'000	*Share capital*	*Share premium*	*Revaluation reserve for available-for-sale financial assets*	*Retained earnings / (Accumulated losses)*	
Balance as at 1 January 2013	8,125,100	257,149	48,227	704,887	9,135,363
Total comprehensive loss					
Loss for the year	–	–	–	(349,228)	(349,228)
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale financial assets, net of deferred tax	–	–	193,634	–	193,634
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	–	–	(594)	–	(594)
Total other comprehensive income	–	–	193,040	–	193,040
Total comprehensive loss for the year	–	–	193,040	(349,228)	(156,188)
Balance as at 31 December 2013	8,125,100	257,149	241,267	355,659	8,979,175
Balance as at 1 January 2014	8,125,100	257,149	241,267	355,659	8,979,175
Total comprehensive loss					
Loss for the year	–	–	–	(1,106,487)	(1,106,487)
Other comprehensive loss					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale financial assets, net of deferred tax	–	–	(86,704)	–	(86,704)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	–	–	(38,671)	–	(38,671)
Total other comprehensive loss	–	–	(125,375)	–	(125,375)
Total comprehensive loss for the year	–	–	(125,375)	(1,106,487)	(1,231,862)
Balance as at 31 December 2014	8,125,100	257,149	115,892	(750,828)	7,747,313

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1. Background

(a) Organisation and operations

Byblos Bank Armenia CJSC (the Bank) was established in 2007 under the laws of the Republic of Armenia.

The principal activities of "Byblos Bank Armenia" CJSC (the Bank) are deposit taking and customer account maintenance, lending, cash and settlement transactions and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank's registered head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The Bank has four branches.

The majority of the assets and liabilities are located in the Republic of Armenia.

(i) Shareholders

In August 2007 Byblos Bank SAL purchased 100% of the shares of "ITB International Trade Bank" CJSC and the Bank was renamed "Byblos Bank Armenia" CJSC.

During the year ended 31 December 2008 the European Bank for Reconstruction and Development and the OPEC Fund for International Development acquired 25% and 10% of the ordinary shares of "Byblos Bank Armenia" CJSC, respectively. The current shareholder structure is as follows:

Byblos Bank SAL – 65%
European Bank for Reconstruction and Development – 25%
OPEC Fund for International Development – 10%

The Bank is ultimately controlled by a single individual Francois Bassil.

(b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Armenian economy was negatively impacted by significant devaluation of the Armenian Dram. This resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

2. Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Non-compliance with prudential ratio set by the Central Bank of Armenia

As of December 31, 2014, the Bank breached the prudential ratio of Central Bank of Armenia on maximum exposure to one borrower. The ratio was reported at 26.8% of regulatory capital compared to the maximum allowed of 20%. The Central Bank of Armenia has notified the Bank on the breach, respective sanctions to be followed. As of the date of issue of these financial statements the breach was not eliminated.

Management expects the Bank to increase the regulatory capital and to eliminate the breach of the ratio by attracting a subordinated loan amounting to USD 5,000,000 (equivalent of AMD 2,374,850 thousand as of December 31, 2014) from Byblos Bank SAL and recovering AMD 630,000 thousand through foreclosure and further sale of collaterals against impaired loans, written-off for regulatory capital calculation purposes, by the end of March 2015. The foreclosure of abovementioned collaterals subsequent to the reporting dateis disclosed in Note 30.

2. Basis of preparation (continued)

(b) Non-compliance with prudential ratio set by the Central Bank of Armenia (continued)

As of December 31, 2014, the regulatory capital of the Bank amounted to AMD 7,062,528 thousand (2013: AMD 8,728,020 thousand) compared to the minimum required AMD 5,000,000 thousand (2013: AMD 5,000,000 thousand) and the regulatory capital adequacy ratio was 18.1% (2013: 22.9%) against the required minimum of 12% (2013: 12%).

(c) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(d) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements. The Armenian Dram is not a convertible currency outside the Republic of Armenia.

Financial information presented in AMD is rounded to the nearest thousand.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 15
- estimates of market values of collaterals for the impaired loans – note 15(c).

3. Significant accounting policies

(a) Changes in accounting policies and presentation

Changes in accounting policies

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Bank’s financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank’s financial statements as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

3. Significant accounting policies (continued)

(a) Changes in accounting policies and presentation (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Bank, since the Bank has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognized in other comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, obligatory reserves for attracted funds in local currency with the CBA, unrestricted balances (nostro accounts) held with the CBA and other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instrument) or,
- upon initial recognition, designated as at fair value through profit or loss.

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Classification (continued)

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value) as well as options purchased are reported as assets. All trading derivatives in a net payable position (negative fair value) as well as options written are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available- for-sale, or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the trade date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Measurement (continued)

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(vii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) Offsetting

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

3. Significant accounting policies (continued)

(e) Property and equipment

(i) *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

buildings	50 years
computers and computer equipment	1-5 years
fixtures and fittings	5-10 years
motor vehicles	5 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(f) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1-10 years.

(g) Repossessed assets

The Bank recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Repossessed assets are included in other assets.

Gains and losses on disposal of repossessed assets are recognized net in “other operating income” in profit or loss.

3. Significant accounting policies (continued)

(h) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for the loan portfolio.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the impairment allowance for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

3. Significant accounting policies (continued)

(h) Impairment (continued)

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

(j) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities. Loan commitments are not recognized, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(k) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognized as share premium.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(l) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant accounting policies (continued)

(l) Taxation (continued)

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(m) Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(n) Leases

Finance – Bank as lessee

The Bank recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

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. 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.

Operating – Bank as lessee

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

3. Significant accounting policies (continued)

(n) Leases (continued)

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(o) New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank . They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted (continued)

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted (continued)

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank is an existing IFRS preparer.

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – Applicability of the Offsetting Disclosures to Condensed Interim Financial Statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. Net interest income

	2014 AMD'000	2013 AMD'000
Interest income		
Loans to customers	2,435,638	2,583,833
Available-for-sale financial assets	446,084	389,999
Amounts due from banks	361,515	724,546
Amounts receivable under reverse repurchase agreements	1,440	7,950
Cash and cash equivalents	181	29,860
Other	939	681
	3,245,797	3,736,869
Interest expense		
Current accounts and deposits from customers	1,656,496	1,449,426
Other borrowed funds	326,898	477,657
Deposits and balances from banks	286,404	392,050
Amounts payable under repurchase agreements	37,870	26,361
Other	9,973	–
	2,317,641	2,345,494
Net interest income	928,156	1,391,375

5. Fee and commission income

	2014 AMD'000	2013 AMD'000
Account servicing	24,985	19,600
Cash entry and withdrawal	22,449	22,092
Credit card maintenance	21,903	24,753
Remittances	15,961	20,406
Other	6,418	4,922
	91,716	91,773

6. Fee and commission expense

	2014 AMD'000	2013 AMD'000
Plastic card services	31,787	31,219
Remittances	5,676	8,367
Inquiries	4,795	5,006
Other	6,149	3,115
	48,407	47,707

7. Net foreign exchange income

	2014 AMD'000	2013 AMD'000
Gain/(loss) from revaluation of financial assets and liabilities	549,700	(6,077)
(Loss)/gain on spot transactions	(64,532)	58,197
	485,168	52,120

8. Other operating expense, net

	2014 AMD'000	2013 AMD'000
Fines and penalties received	18,805	44,357
Payments to state deposit insurance fund	(45,905)	(41,379)
(Loss)/gain on disposal of non-current assets	(14,049)	335
Fines and penalties paid	(10,033)	(14,200)
Other expenses	(20,386)	(13,745)
	(71,568)	(24,632)

9. Impairment losses

	2014 AMD'000	2013 AMD'000
Loans to customers	1,289,694	720,129
Other impairments	16,125	5,021
	1,305,819	725,150

Impairment losses are disclosed in Note 15 and Note 17.

10. Other general administrative expenses

	2014 AMD'000	2013 AMD'000
Depreciation and amortisation	89,422	94,422
Advertising and marketing	68,585	72,100
Legal services	58,375	22,564
Maintenance of computer software	44,511	43,027
Repairs and maintenance	39,799	35,816
Insurance	33,371	29,145
Taxes other than on income	32,239	48,503
Security	29,124	30,721
Professional services	22,797	23,085
Communications and information services	19,785	21,739
Maintenance of cars	17,102	15,717
Operating lease expense	13,252	12,402
Office supplies	9,177	11,208
Travel expenses	8,758	15,222
Membership expenses	7,560	7,470
Trainings	7,196	5,254
Other	17,742	17,150
	518,795	505,545

11. Income tax (expense)/ benefit

	2014 AMD'000	*2013 AMD'000*
Current period tax expense	–	(66,939)
Prior years income tax correction	–	15,194
Deferred taxation movement due to origination and reversal of temporary differences	(15,367)	87,929
Total income tax (expense)/ benefit	(15,367)	36,184

In 2014 applicable tax rate for current and deferred tax is 20% (2013: 20%).

Reconciliation of effective tax rate

	2014 AMD'000	%	*2013 AMD'000*	%
Loss before tax	(1,091,120)		(385,412)	
Income tax benefit at the applicable tax rate	218,224	(20%)	77,082	(20%)
Non-deductible expenses	(13,619)	1%	(40,898)	11%
Unrecognised deferred tax assets	(219,972)	20%	–	–
	(15,367)	1%	36,184	(9%)

(a) Deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2014 and 31 December 2013.

The deductible temporary differences do not expire under current tax legislation, except for the tax loss carry forwards which can be carried forward for 5 subsequent years.

Movements in temporary differences for the years ended 31 December 2014 and 2013 are presented as follows:

AMD'000	*Balance 1 January 2014*	*Recognized in profit or loss*	*Recognized in other comprehensive loss*	*Balance 31 December 2014*
Cash and cash equivalents	(1,373)	506	–	(867)
Available-for-sale financial assets	(60,316)	–	31,344	(28,972)
Amounts due from banks	(9,940)	(8,730)	–	(18,670)
Loans to customers	43,002	(125,411)	–	(82,409)
Property and equipment	1,504	848	–	2,352
Other assets	987	315	–	1,302
Tax losses	–	338,103	–	338,103
Other liabilities	(389)	(1,026)	–	(1,415)
Gross deferred tax (liability)/ asset	(26,525)	204,605	31,344	209,424
Unrecognised deferred tax assets	–	(219,972)	–	(219,972)
	(26,525)	(15,367)	31,344	(10,548)

11. Income tax benefit (continued)

(a) Deferred tax liabillities (continued)

AMD'000	*Balance 1 January 2013*	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*Balance 31 December 2013*
Cash and cash equivalents	(6,060)	4,687	–	(1,373)
Available-for-sale financial assets	(12,056)	–	(48,260)	(60,316)
Amounts due from banks	(24,243)	14,303	–	(9,940)
Loans to customers	(27,358)	70,360	–	43,002
Property and equipment	656	848	–	1,504
Other assets	1,304	(317)	–	987
Other liabilities	1,563	(1,952)	–	(389)
	(66,194)	87,929	(48,260)	(26,525)

(b) Income tax recognized in other comprehensive (loss) / income

The tax effects relating to components of other comprehensive (loss) / income for the years ended 31 December 2014 and 2013 comprise the following:

	31 December 2014			*31 December 2013*		
AMD'000	*Amount before tax*	*Tax expense*	*Amount net-of-tax*	*Amount before tax*	*Tax expense*	*Amount net-of-tax*
Net change in fair value of available-for-sale financial assets	(119,231)	23,846	(95,385)	247,386	(49,477)	197,909
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(37,488)	7,498	(29,990)	(6,086)	1,217	(4,869)
Other comprehensive (loss) / income	(156,719)	31,344	(125,375)	241,300	(48,260)	193,040

12. Cash and cash equivalents

	2014 AMD'000	*2013 AMD'000*
Cash on hand	575,087	509,408
Nostro accounts with the CBA, including obligatory reserves	3,235,811	7,131,971
Nostro accounts with other banks		
OECD banks	335,348	496,237
Other foreign banks	95,797	188,225
Largest 10 Armenian banks	2,027	1,865
Small and medium size Armenian banks	87	86
Total nostro accounts with other banks	433,259	686,413
Total cash and cash equivalents as shown in the statement of cash flows	4,244,157	8,327,792
Accrued interest	16	34
Total cash and cash equivalents	4,244,173	8,327,826

Nostro accounts with the Central Bank of Armenia are related to settlement activity and are available for withdrawal at the end of the year.

Banks are required to maintain cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 20% (effective from 24 December 2014) of the amounts attracted in foreign currency. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation, however, if the Bank fails to comply with minimum average monthly amount of reserve for amounts attracted in Armenian drams, and minimum daily amount of reserve for amounts attracted in foreign currency, the sanctions may apply.

12. Cash and cash equivalents (continued)

During December 2014 the CBA revised the procedure for obligatory reservation of attracted funds in foreign currency. The new rules, which came into effect since December 18, 2014, increased the reservation requirements against funds attracted in foreign currency and required to keep the amount of the above mentioned reserve on nostro account of the Central Bank of Armenia on daily basis.

Due to the above mentioned changes the Bank classified obligatory reserves for amounts attracted in foreign currency in amount of AMD 6,455,766 thousand as Amounts due from banks. As of December 31, 2013, obligatory reserves for amounts attracted in foreign currency in amount of AMD 3,353,861 thousand are included in cash and cash equivalents.

As of 31 December 2014 included in Nostro accounts with the CBA, is the amount of obligatory reserve of AMD 105,509 thousand for amounts attracted in Armenian drams (2013: AMD 133,891 thousand).

13. Available-for-sale financial assets

	2014 AMD'000	*2013 AMD'000*
Held by the bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	–	2,602,643
Securities of international financial institutions	49,727	50,107
	49,727	2,652,750
Equity instruments		
Corporate shares	13,160	13,160
	13,160	13,160
	62,887	2,665,910
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	3,118,896	773,337
	3,118,896	773,337

The Bank has transactions to lend securities and to sell securities under agreements to repurchase.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These securities are presented as "pledged under sale and repurchase agreements" in note 13. The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay the purchase price for this collateral.

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

Included in available-for-sale financial assets are non-quoted equity securities:

Name	*Country of incorporation*	*Main activity*	*% Controlled* 2014	2013	*2014 AMD'000*	*2013 AMD'000*
ArCa	Republic of Armenia	Payment system	1.25%	1.25%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

13. Available-for-sale financial assets (continued)

Investments without a determinable fair value

Available-for-sale equity investments stated at cost comprise unquoted equity securities in the money transfer industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

14. Amounts due from banks

	2014 AMD'000	*2013 AMD'000*
Obligatory reserve with the CBA, related to attracted funds in foreign currency	6,455,766	–
Credit card settlement deposit with the CBA	142,500	140,000
Derivative instruments (currency swap)	882	–
Loans and deposits		
Largest 10 Armenian banks	4,488,394	1,439,095
Small and medium size Armenian banks	4,782,584	3,476,360
OECD banks	63,881	54,557
Total loans and deposits	9,334,859	4,970,012
Total amounts due from banks	15,934,007	5,110,012

During December 2014 the CBA revised the procedure for obligatory reservation of attracted funds in foreign currency. The new rules, which came into effect since December 18, 2014, increased the reservation requirements against attracted in foreign currency funds and required to keep the amount of the above mentioned reserve on nostro account of the Central Bank of Armenia on daily basis.

Due to the above mentioned changes the Bank classified obligatory reserves for amounts attracted in foreign currency in amount of AMD 6,455,766 thousand as Amounts due from banks. As of December 31, 2013, obligatory reserves for amounts attracted in foreign currency in amount of AMD 3,353,861 thousand are included in cash and cash equivalents.

The currency swap agreement was concluded with one of the 10 largest Armenian banks with the volume of USD 300,000 and 1 USD=471.46 AMD spot and forward exchange rates. The USD was repurchased on January 12, 2015. AMD was attracted at 22%p.a.

As at 31 December 2014 included in loans and deposits with OECD banks is AMD 63,881 thousand (31 December 2013: AMD 54,557 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

No amounts due from banks are impaired or past due.

Concentration of amounts due from banks

As at 31 December 2014 the Bank has eight banks (31 December 2013: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 15,870,127 thousand (31 December 2013: AMD 2,877,395 thousand).

15. Loans to customers

	2014 AMD'000	2013 AMD'000
Loans to corporate customers		
Loans to large corporates	16,505,945	14,564,691
Loans to small and medium size companies	1,586,621	680,371
Total loans to corporate customers	18,092,566	15,245,062
Loans to retail customers		
Mortgage loans	9,276,622	6,682,155
Consumer loans secured by real estate	1,558,204	1,519,534
Small business loans	748,681	603,208
Auto loans	680,899	792,802
Credit card loans	317,024	257,523
Consumer loans with salary domiciliation	295,841	294,197
Other	33,607	53,148
Total loans to retail customers	12,910,878	10,202,567
Gross loans to customers	31,003,444	25,447,629
Impairment allowance	(2,568,811)	(1,342,468)
Net loans to customers	28,434,633	24,105,161

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	1,163,664	178,804	1,342,468
Net charge	1,246,274	43,420	1,289,694
Write-offs	(17,725)	(45,626)	(63,351)
Balance at the end of the year	2,392,213	176,598	2,568,811

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	492,242	146,774	639,016
Net charge	671,422	48,707	720,129
Write-offs	–	(16,677)	(16,677)
Balance at the end of the year	1,163,664	178,804	1,342,468

15. Loans to customers (continued)

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2014:

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to corporate customers				
Loans to large corporates				
Loans secured with cash collateral	3,087,305	–	3,087,305	0%
Other loans without individual signs of impairment	6,561,264	(75,454)	6,485,810	1.15%
Impaired loans:				
- not overdue	782,946	(15,659)	767,287	2.0%
- overdue more than 90 days and less than 1 year	949,628	(322,874)	626,754	34.0%
- overdue more than 1 year	5,124,802	(1,937,644)	3,187,158	37.8%
Total impaired loans	6,857,376	(2,276,177)	4,581,199	33.2%
Total loans to large corporates	16,505,945	(2,351,631)	14,154,314	14.2%
Loans to small and medium size companies				
Loans without individual signs of impairment	1,356,185	(15,598)	1,340,587	1.15%
Impaired loans:				
- overdue more than 90 days and less than 1 year	45,193	(903)	44,290	2.0%
-overdue more than 1 year	185,243	(24,081)	161,162	13.0%
Total impaired loans	230,436	(24,984)	205,452	10.8%
Total loans to small and medium size companies	1,586,621	(40,582)	1,546,039	2.6%
Total loans to corporate customers	18,092,566	(2,392,213)	15,700,353	13.22%
Loans to retail customers				
Mortgage loans				
-not overdue	9,091,109	(18,182)	9,072,927	0.2%
- not overdue, but impaired	8,999	(1,800)	7,199	20.0%
- overdue less than 30 days	55,968	(22,387)	33,581	40.0%
- overdue 31-90 days	87,375	(34,950)	52,425	40.0%
- overdue 91-180 days	14,810	(5,924)	8,886	40.0%
- overdue 181-270 days	18,361	(7,344)	11,017	40.0%
Total mortgage loans	9,276,622	(90,587)	9,186,035	1.0%
Consumer loans secured by real estate				
- not overdue	1,502,102	(3,004)	1,499,098	0.2%
- not overdue, but impaired	9,481	(2,655)	6,826	28.0%
- overdue less than 30 days	8,191	(4,587)	3,604	56.0%
- overdue 31-90 days	12,836	(7,188)	5,648	56.0%
- overdue 91-180 days	9,721	(5,444)	4,277	56.0%
- overdue 181-270 days	6,612	(3,703)	2,909	56.0%
- overdue more than 271 days	9,261	(5,186)	4,075	56.0%
Total consumer loans secured by real estate	1,558,204	(31,767)	1,526,437	2.0%
Small business loans				
- not overdue	702,792	(1,406)	701,386	0.2%
- not overdue, but impaired	13,941	(3,485)	10,456	25.0%
- overdue less than 30 days	11,488	(5,744)	5,744	50.0%
- overdue 31-90 days	13,229	(6,615)	6,614	50.0%
- overdue 91-180 days	7,231	(3,615)	3,616	50.0%
Total small business loans	748,681	(20,865)	727,816	2.8%
Auto loans				
- not overdue	644,516	(1,289)	643,227	0.2%
- not overdue, but impaired	3,334	(817)	2,517	24.5%
- overdue less than 30 days	8,775	(4,300)	4,475	49.0%
- overdue 31-90 days	13,970	(6,845)	7,125	49.0%
- overdue 181-270 days	6,736	(3,301)	3,435	49.0%
- overdue more than 271 days	3,568	(1,748)	1,820	49.0%
Total auto loans	680,899	(18,300)	662,599	2.7%
Credit card loans				

15. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
- not overdue	300,157	(600)	299,557	0.2%
- not overdue, but impaired	16,867	(8,096)	8,771	48.0%
Total credit card loans	317,024	(8,696)	308,328	2.7%
Consumer loans with salary domiciliation				
- not overdue	283,726	(567)	283,159	0.2%
- overdue less than 30 days	5,014	(2,407)	2,607	48.0%
- overdue 31-90 days	3,464	(1,663)	1,801	48.0%
- overdue 91-180 days	2,673	(1,283)	1,390	48.0%
- overdue 181-270 days	964	(463)	501	48.0%
Total consumer loans with salary domiciliation	295,841	(6,383)	289,458	2.2%
Other retail loans				
- not overdue	33,607	–	33,607	0.0%
Total other retail loans	33,607	–	33,607	0.0%
Total loans to retail customers	12,910,878	(176,598)	12,734,280	1.37%
Total loans to customers	31,003,444	(2,568,811)	28,434,633	8.29%

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	9,337,426	(46,687)	9,290,739	0.5%
Impaired loans:				
- overdue less than 90 days	811,140	(81,114)	730,026	10.0%
- overdue more than 90 days and less than 1 year	2,836,707	(390,524)	2,446,183	13.8%
- overdue more than 1 year	1,579,418	(622,117)	957,301	39.4%
Total impaired loans	5,227,265	(1,093,755)	4,133,510	20.9%
Total loans to large corporates	14,564,691	(1,140,442)	13,424,249	7.8%
Loans to small and medium size companies				
Loans without individual signs of impairment	501,694	(2,508)	499,186	0.5%
Impaired loans:				
- overdue less than 90 days	178,677	(20,714)	157,963	11.6%
Total impaired loans	178,677	(20,714)	157,963	11.6%
Total loans to small and medium size companies	680,371	(23,222)	657,149	3.4%
Total loans to corporate customers	15,245,062	(1,163,664)	14,081,398	7.63%
Loans to retail customers				
Mortgage loans				
- not overdue	6,497,746	(64,978)	6,432,768	1.0%
- not overdue, but impaired	64,121	(12,824)	51,297	20.0%
- overdue less than 30 days	60,963	(12,193)	48,770	20.0%
- overdue 31-90 days	3,778	(756)	3,022	20.0%
- overdue 91-180 days	8,923	(1,785)	7,138	20.0%
- overdue 181-270 days	46,624	(9,325)	37,299	20.0%
Total mortgage loans	6,682,155	(101,861)	6,580,294	1.5%
Consumer loans secured by real estate				
- not overdue	1,480,807	(14,809)	1,465,998	1.0%
- not overdue, but impaired	7,852	(1,570)	6,282	20.0%
- overdue less than 30 days	10,567	(2,113)	8,454	20.0%
- overdue 31-90 days	6,836	(1,367)	5,469	20.0%
- overdue 91-180 days	5,869	(1,174)	4,695	20.0%
- overdue 181-270 days	6,622	(1,324)	5,298	20.0%
- overdue more than 271 days	981	(196)	785	20.0%
Total consumer loans secured by real estate	1,519,534	(22,553)	1,496,981	1.5%
Small business loans				
- not overdue	549,497	(2,747)	546,750	0.5%
- not overdue, but impaired	4,171	(834)	3,337	20.0%

15. Loans to customers (continued)

(a) Credit quality of loans to customers (continued)

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
- overdue less than 30 days	21,058	(4,212)	16,846	20.0%
- overdue 31-90 days	4,302	(860)	3,442	20.0%
- overdue more than 271 days	24,180	(4,836)	19,344	20.0%
Total small business loans	603,208	(13,489)	589,719	2.2%
Auto loans				
- not overdue	769,278	(15,386)	753,892	2.0%
- overdue less than 30 days	9,835	(3,934)	5,901	40.0%
- overdue 31-90 days	891	(357)	534	40.1%
- overdue 91-180 days	4,626	(1,850)	2,776	40.0%
- overdue 181-270 days	5,860	(2,344)	3,516	40.0%
- overdue more than 271 days	2,312	(925)	1,387	40.0%
Total auto loans	792,802	(24,796)	768,006	3.1%
Credit card loans				
- not overdue	249,623	(4,992)	244,631	2.0%
- not overdue, but impaired	7,900	(3,950)	3,950	50.0%
Total credit card loans	257,523	(8,942)	248,581	3.5%
Consumer loans with salary domiciliation				
- not overdue	291,534	(5,831)	285,703	2.0%
- overdue less than 30 days	2,406	(1,203)	1,203	50.0%
- overdue 31-90 days	73	(37)	36	50.0%
- overdue 91-180 days	184	(92)	92	50.0%
Total consumer loans with salary domiciliation	294,197	(7,163)	287,034	2.4%
Other retail loans				
- not overdue	53,148	–	53,148	0.0%
Total other retail loans	53,148	–	53,148	0.0%
Total loans to retail customers	10,202,567	(178,804)	10,023,763	1.8%
Total loans to customers	25,447,629	(1,342,468)	24,105,161	5.3%

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- for non-impaired loans the Bank creates a collective provision of 0% on loans secured with cash collateral and 1.15% on other commercial non-impaired loans considering the economic environment and market loss experience;

The impairment allowance on impaired loans to corporate customers would have been AMD 612,819 thousand higher (31 December 2013: AMD 192,740 thousand) if the market value of the collateral have been assessed 15% lower as at the reporting date.

During the year ended 31 December 2014 the Bank has not renegotiated commercial loans that would otherwise be past due or impaired (31 December 2013: AMD 14,050 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

15. Loans to customers (continued)

(b) Key assumptions and judgments for estimating the loan impairment

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical and market loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include the following loss estimates:

- Not impaired retail loans – up to 0.2%
- The cost associated with the collection of not overdue, but impaired loans will not exceed:

  a) mortgage loans - 20%,
  b) consumer loans secured by real estate - 28%,
  c) small business loans - 25%,
  d) auto loans – 24.5%,
  e) consumer loans with salary domiciliation – 24%.
  f) credit cards – 48%

The cost associated with the collection of impaired loans will not exceed

a) mortgage loans - 40%,
b) consumer loans secured by real estate - 56%,
c) small business loans - 50%,
d) auto loans – 49%
e) credit cards and consumer loans with salary domiciliation – 48%.

(c) Analysis of collateral

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The fair value of collateral that the Bank holds relating to loans with individual signs of impairment at 31 December 2014 amounts to AMD 6,032,999 thousand (2013: AMD 6,037,855 thousand).

(ii) Loans to retail customers

Mortgage loans and consumer loans secured by real estate are secured by the underlying housing real estate. The Bank’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70% at the date of loan issuance. Small business loans are secured by real estate. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries.

(iii) Repossessed collateral

During the year ended 31 December 2014 the Bank has not obtained assets by taking possession of real estate collateral of loans to corporate customers (31 December 2013: AMD 80,313 thousand).

During the year ended 31 December 2014 the Bank obtained real estate and vehicles with a fair value of AMD 62,796 thousand by taking possession of collateral for loans to retail customers (31 December 2013: AMD 64,666 thousand). Part of the aforementioned repossessed collateral was sold during 2014 in amount of AMD 33,485 thousand.

The Banks intention is to sell these assets as soon as it is practicable.

15. Loans to customers (continued)

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2014 *AMD'000*	*2013* *AMD'000*
Energy and gas	6,442,671	3,217,883
Trade	4,876,379	5,125,933
Manufacturing	2,535,465	2,922,557
Agriculture, forestry and timber	2,379,729	2,364,562
Transport	1,790,352	1,591,286
Public catering and other services	67,970	22,841
Loans to retail customers	12,910,878	10,202,567
	31,003,444	25,447,629
Impairment allowance	(2,568,811)	(1,342,468)
	28,434,633	24,105,161

(e) Significant credit exposures

As at 31 December 2014 the Bank has nine borrowers or groups of connected borrowers (31 December 2013: seven), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is AMD 14,782,423 thousand (31 December 2013: AMD 9,169,653 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 24 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16. Property, equipment and intangible assets

AMD'000	*Land and buildings*	*Computers and communi-cation equipment*	*Fixtures and fittings*	*Motor vehicles*	*Leasehold improvements*	*Intangible assets*	*Total*
Cost							
Balance at 1 January 2014	942,142	283,802	252,531	53,700	21,193	163,228	1,716,596
Additions	2,937	32,191	11,012	–	1,576	1,624	49,340
Disposals	–	(3,411)	(4,920)	–	–	–	(8,331)
Balance at 31 December 2014	945,079	312,582	258,623	53,700	22,769	164,852	1,757,605
Depreciation and amortization							
Balance at 1 January 2014	(123,521)	(191,050)	(168,799)	(53,700)	(17,064)	(89,742)	(643,876)
Depreciation and amortization for the year	(19,720)	(33,802)	(30,126)	–	(2,732)	(3,042)	(89,422)
Disposals	–	2,651	4,843	–	–	–	7,494
Balance at 31 December 2014	(143,241)	(222,201)	(194,082)	(53,700)	(19,796)	(92,784)	(725,804)
Carrying amount							
Balance at 31 December 2014	801,838	90,381	64,541	–	2,973	72,068	1,031,801
Cost							
Balance at 1 January 2013	928,585	287,298	231,995	53,700	21,193	162,098	1,684,869
Additions	13,557	7,677	24,874	–	–	1,130	47,238
Disposals	–	(11,173)	(4,338)	–	–	–	(15,511)
Balance at 31 December 2013	942,142	283,802	252,531	53,700	21,193	163,228	1,716,596
Depreciation and amortization							
Balance at 1 January 2013	(104,574)	(160,800)	(144,418)	(53,700)	(14,706)	(86,422)	(564,620)
Depreciation and amortization for the year	(18,947)	(41,178)	(28,619)	–	(2,358)	(3,320)	(94,422)
Disposals	–	10,928	4,238	–	–	–	15,166
Balance at 31 December 2013	(123,521)	(191,050)	(168,799)	(53,700)	(17,064)	(89,742)	(643,876)
Carrying amount							
Balance at 31 December 2013	818,621	92,752	83,732	–	4,129	73,486	1,072,720

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the year ended 31 December 2014 (2013: nil).

17. Other assets

	2014 AMD'000	*2013 AMD'000*
Receivables under money transfer and clearing systems	8,456	59,595
Other receivables	1,994	26,700
Total other financial assets	10,450	86,295
Repossessed assets	275,586	361,069
Income tax prepayments	51,205	–
Prepayments for purchase of non-current assets	53,500	1,595
Other Prepayments	47,892	87,195
Other	22,127	24,411
Total other non-financial assets	450,310	474,270
Total other assets	460,760	560,565

In 2014 receivables in amount of AMD 16,125 thousand were impaired and written off (2013: AMD 5,021 thousand).

The nature and net carrying value of repossessed assets as at 31 December 2014 and 2013 are as follows:

	2014 AMD'000	*2013 AMD'000*
Land and buildings	275,586	361,069

Management believes that the carrying amount of repossessed assets approximately equals their fair value less costs to sell as at 31 December 2014 and 2013.

18. Deposits and balances from banks

	2014 *AMD'000*	*2013* *AMD'000*
Loans and term deposits	5,139,204	2,439,528
Vostro accounts	8	349
	5,139,212	2,439,877

As at 31 December 2014 the Bank has one bank (31 December 2013: one), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 3,912,610 thousand (31 December 2013: AMD 2,076,446 thousand).

19. Amounts payable under repurchase agreements

	2014 *AMD'000*	*2013* *AMD'000*
Amounts due to the CBA	3,057,139	750,641
	3,057,139	750,641

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be re-pledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These securities of AMD 3,118,896 thousand (31 December 2013: AMD 773,337 thousand) are presented as "pledged under sale and repurchase agreements" in note 13. The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay the purchase price for this collateral.

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

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

	Transferred financial asset	*Available for sale* *Gov. debt securities* *2014*
Carrying amount Assets	Repurchase agreements	3,118,896
Carrying amount associated liabilities	Repurchase agreements	3,057,139
Net position		(61,757)

	Transferred financial asset	*Available for sale* *Gov. debt securities* *2013*
Carrying amount Assets	Repurchase agreements	773,337
Carrying amount associated liabilities	Repurchase agreements	750,641
Net position		(22,696)

20. Current accounts and deposits from customers

	2014 *AMD'000*	*2013* *AMD'000*
Current accounts and demand deposits		
- Retail	3,974,227	3,759,122
- Corporate	534,765	583,457
Term deposits		
- Retail	23,967,980	17,225,272
- Corporate	5,360,616	2,820,952
	33,837,588	24,388,803

As of 31 December 2014 the Bank maintained customer deposit balances of AMD 68,396 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2013: AMD 108,820 thousand).

As of 31 December 2014 the Bank has five customers (31 December 2013: three customers), whose balances exceed 10% of equity. These balances as at 31 December 2014 are AMD 10,496,131 thousand (31 December 2013: AMD 5,752,872 thousand).

In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

21. Other borrowed funds

	2014 *AMD'000*	*2013* *AMD'000*
Loan from International Financial Corporation (IFC)	1,653,201	1,721,533
Loans from National Mortgage Company	955,760	1,013,620
Loan from OPEC Fund for International Development (OFID)	396,607	1,016,196
Loans from European Bank for Reconstruction and Development (EBRD)	342,965	878,718
Loans from European Fund for Southeast Europe (EFSE)	–	1,211,097
	3,348,533	5,841,164

On January 31, 2014 the Bank early repaid the loans from EFSE.

As at 31 December 2014 the Bank has two financial institutions (31 December 2013: four), whose balances exceed 10% of equity. These balances as at 31 December 2014 are AMD 2,608,961 thousand (31 December 2013: AMD 4,962,446 thousand).

(a) Breach of covenants

The Bank breached some of its maximum covenant thresholds with IFC, OFID and EBRD. As of the date these financial statements were authorised for issue the management did not obtain a waiver, so that these loans were payable on demand as at 31 December 2014. Accordingly, a total of AMD 2,392,773 thousand is classified as being due on demand and less than one month in the interest rate gap, liquidity and maturity tables in note 24.

22. Other liabilities

	2014 AMD'000	2013 AMD'000
Salary and similar payables	58,360	49,892
Payables to suppliers	17,273	26,060
Other financial liabilities	19,683	45,330
Total other financial liabilities	95,316	121,282
Other taxes payable	38,880	38,689
Deferred income	4,667	14,577
Income taxes payable	–	6,627
Other non-financial liabilities	7,961	8,171
Total other non-financial liabilities	51,508	68,064
Total other liabilities	146,824	189,346

23. Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 81,251 ordinary shares (31 December 2013: 81,251). All shares have a nominal value of AMD 100,000. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date no reserves are available for distribution.

24. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. The Management Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

24. Risk management (continued)

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in debt and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO Committee.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Total*
31 December 2014						
Interest-bearing assets						
Cash and cash equivalents	431,351	–	–	–	–	431,351
Available-for-sale financial assets	21,723	47,825	–	3,099,075	–	3,168,623
Amounts due from banks	5,982,940	1,673,151	1,614,887	–	–	9,270,978
Loans to customers	1,234,582	3,025,717	5,715,775	11,781,182	6,677,377	28,434,633
	7,670,596	4,746,693	7,330,662	14,880,257	6,677,377	41,305,585
Interest-bearing liabilities						
Deposits and balances from banks	1,686,957	14,839	3,135,389	302,019	–	5,139,204
Amounts payable under repurchase agreements	3,057,139	–	–	–	–	3,057,139
Current accounts and deposits from customers	11,272,525	4,933,491	9,661,626	7,209,422	–	33,077,064
Other borrowed funds	2,433,565	13,999	34,604	511,001	355,364	3,348,533
	18,450,186	4,962,329	12,831,619	8,022,442	355,364	44,621,940
Interest rate gap	(10,779,590)	(215,636)	(5,500,957)	6,857,815	6,322,013	(3,316,355)

24. Risk management (continued)

(b) Market risk (continued)

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Total*
31 December 2013						
Interest-bearing assets						
Cash and cash equivalents	684,683	–	–	–	–	684,683
Available-for-sale financial assets	30,258	48,446	–	3,347,383	–	3,426,087
Amounts due from banks	1,840,758	3,074,697	–	–	–	4,915,455
Loans to customers	3,225,813	1,228,815	1,943,693	12,703,199	5,003,641	24,105,161
	5,781,512	4,351,958	1,943,693	16,050,582	5,003,641	33,131,386
Interest-bearing liabilities						
Deposits and balances from banks	735,498	823	677,448	1,025,759	–	2,439,528
Amounts payable under repurchase agreements	750,641	–	–	–	–	750,641
Current accounts and deposits from customers	10,845,726	3,033,905	6,314,175	3,014,766	42,090	23,250,662
Other borrowed funds	4,854,460	19,150	41,614	454,849	471,091	5,841,164
	17,186,325	3,053,878	7,033,237	4,495,374	513,181	32,281,995
Interest rate gap	(11,404,813)	1,298,080	(5,089,544)	11,555,208	4,490,460	849,391

24. Risk management (continued)

(b) Market risk (continued)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 31 December 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014 Average effective interest rate, %			*2013 Average effective interest rate, %*		
	AMD	*USD*	*Other currencies*	*AMD*	*USD*	*Other currencies*
Interest bearing assets						
Available-for-sale financial assets	14.0%	–	–	14.0%	–	–
Amounts due from banks	–	6.1%	–	–	8.2%	–
Loans to customers	14.0%	7.4%	6.0%	14.9%	10.6%	10.3%
Interest bearing liabilities						
Deposits and balances from banks	19.1%	8.9%	–	8.9%	8.9%	–
Amounts payable under repurchase agreements	22.1%	–	–	7.8%	–	–
Current accounts and deposits from customers						
- Current accounts and demand deposits	4.3%	2.3%	0.4%	2.6%	2.0%	0.3%
- Term deposits	11.9%	6.1%	3.0%	11.6%	6.2%	3.1%
Other borrowed funds	8.9%	6.4%	–	8.7%	6.3%	–

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities.

An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 and 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 31 December 2013, respectively, as follows:

	2014 AMD'000	*2013 AMD'000*
100 bp parallel fall	64,916	116,191
100 bp parallel rise	(64,916)	(116,191)

An analysis of sensitivity of net profit or loss and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing at 31 December 2014 and 31 December 2013 and a simplified scenario of a 218 and 100 bp symmetrical fall or rise in all yield curves, respectively, is as follows:

	2014		*2013*	
	Net profit AMD'000	*Equity AMD'000*	*Net profit AMD'000*	*Equity AMD'000*
218 / 100 bp parallel fall	–	104,597	–	65,112
218 / 100 bp parallel rise	–	(104,597)	–	(65,112)

24. Risk management (continued)

(b) Market risk (continued)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	AMD *AMD'000*	*USD* *AMD'000*	*EUR* *AMD'000*	*Other currencies* *AMD'000*	*Total* *AMD'000*
Assets					
Cash and cash equivalents	501,776	2,917,582	817,810	7,005	4,244,173
Available-for-sale financial assets	3,181,783	–	–	–	3,181,783
Amounts due from banks	6,599,148	9,334,859	–	–	15,934,007
Loans to customers	6,613,604	21,605,460	215,569	–	28,434,633
Other financial assets	2,005	8,434	11	–	10,450
Total	16,898,316	33,866,335	1,033,390	7,005	51,805,046
Liabilities					
Deposits and balances from banks	1,226,598	3,912,614	–	–	5,139,212
Amounts payable under repurchase agreements	3,057,139	–	–	–	3,057,139
Current accounts and deposits from customers	4,599,241	28,277,242	959,852	1,253	33,837,588
Other borrowed funds	934,991	2,413,542	–	–	3,348,533
Other financial liabilities	93,145	1,502	669	–	95,316
Total	9911,114	34,604,900	960,521	1,253	45,477,788
Net position	6,987,202	(738,565)	72,869	5,752	6,327,258
The influence of derivatives	(141,609)	142,491	–	–	882
Net position with derivatives	6,845,593	(596,074)	72,869	5,752	6,328,140

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	AMD *AMD'000*	*USD* *AMD'000*	*EUR* *AMD'000*	*Other currencies* *AMD'000*	*Total* *AMD'000*
Assets					
Cash and cash equivalents	3,966,858	3,525,818	764,121	71,029	8,327,826
Available-for-sale financial assets	3,439,247	–	–	–	3,439,247
Amounts due from banks	140,000	4,970,012	–	–	5,110,012
Loans to customers	6,733,571	17,178,862	192,728	–	24,105,161
Other financial assets	83,856	2,081	358	–	86,295
Total	14,363,532	25,676,773	957,207	71,029	41,068,541
Liabilities					
Deposits and balances from banks	363,096	2,076,500	279	2	2,439,877
Amounts payable under repurchase agreements	750,641	–	–	–	750,641
Current accounts and deposits from customers	3,318,084	20,082,479	964,640	23,600	24,388,803
Other borrowed funds	1,013,620	4,827,544	–	–	5,841,164
Other financial liabilities	86,019	33,385	634	1,244	121,282
Total	5,531,460	27,019,908	965,553	24,846	33,541,767
Net position	8,832,072	(1,343,135)	(8,346)	46,183	7,526,774

24. Risk management (continued)

(b) Market risk (continued)

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2014 and 31 December 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014 *AMD'000*	*2013* *AMD'000*
19.1% appreciation of USD against AMD	(113,850)	(256,539)
20.71% appreciation of EUR against AMD	15,091	(1,728)

A strengthening of the AMD against the above currencies at 31 December 2014 and 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments).

Corporate loan credit applications are originated and analyzed by the relevant relationship managers from the Commercial Banking Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Management Committee reviews the loan credit application on the basis of submissions by the Commercial Banking Department. Individual transactions are also reviewed by the Legal Unit, depending on the specific risks and pending final approval of the Management Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists.

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2014 *AMD'000*	*2013* *AMD'000*
Assets		
Cash and cash equivalents	4,244,173	8,327,826
Available-for-sale financial assets	3,181,783	3,439,247
Amounts due from banks	15,934,007	5,110,012
Loans to customers	28,434,633	24,105,161
Other financial assets	10,450	86,295
Total maximum exposure	51,805,046	41,068,541

24. Risk management (continued)

(c) Credit risk (continued)

Collateral generally is not held against investments in securities, and loans to banks, except when securities are held as part of reverse repurchase activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 15.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 26.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's 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.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank receives and accepts collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

AMD'000

Types of financial liabilities	*Gross amounts of recognized financial liability*	*Gross amount of recognized financial liability offset in the statement of financial position*	*Net amount of financial liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position*	*Net amount*
				Financial instruments	
Amounts payable under repurchase agreements	3,057,139	–	3,057,139	(3,057,139)	–
Total financial liabilities	3,057,139	–	3,057,139	(3,057,139)	–

24. Risk management (continued)

(c) Credit risk (continued)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

AMD'000

Types of financial liabilities	*Gross amounts of recognized financial liability*	*Gross amount of recognized financial liability offset in the statement of financial position*	*Net amount of financial liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position*	
				Financial instruments	*Net amount*
Amounts payable under repurchase agreements	750,641	-	750,641	(750,641)	–
Total financial liabilities	750,641	–	750,641	(750,641)	–

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the ALCO Committee.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Unit receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Unit then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.
The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Unit. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO Committee, based on the reports of Risk Management and Treasury Unit.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

24. Risk management (continued)

(d) Liquidity risk (continued)

The contractual maturity analysis for financial liabilities as at 31 December 2014 is as follows:

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Total gross amount outflow*	*Carrying amount*
31 December 2014							
Non-derivative liabilities							
Deposits and balances from banks	881,738	827,030	15,319	3,306,575	389,141	5,419,803	5,139,212
Amounts payable under repurchase agreements	3,077,219	–	–	–	–	3,077,219	3,057,139
Current accounts and deposits from customers	6,292,641	5,796,691	5,040,906	10,146,394	7,987,885	35,264,517	33,837,588
Other borrowed funds	2,418,184	15,554	14,497	37,028	1,230,047	3,715,310	3,348,533
Other financial liabilities	90,370	4,946	–	–	–	95,316	95,316
Total	12,760,152	6,644,221	5,070,722	13,489,997	9,607,073	47,572,165	45,477,788
Credit related commitments	797,782	–	–	–	–	797,782	797,782

The contractual maturity analysis for financial liabilities as at 31 December 2013 is as follows:

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Total gross amount outflow*	*Carrying amount*
31 December 2013							
Non-derivative liabilities							
Deposits and balances from banks	10,368	738,820	850	721,194	1,191,453	2,662,685	2,439,877
Amounts payable under repurchase agreements	751,923	–	–	–	–	751,923	750,641
Current accounts and deposits from customers	6,404,792	5,642,013	3,094,604	6,641,789	3,594,480	25,377,678	24,388,803
Other borrowed funds	4,834,137	22,592	42,150	100,174	1,773,336	6,772,389	5,841,164
Other financial liabilities	121,282	–	–	–	–	121,282	121,282
Total	12,122,502	6,403,425	3,137,604	7,463,157	6,559,269	35,685,957	33,541,767
Credit related commitments	1,430,790	–	–	–	–	1,430,790	1,430,790

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2014 AMD'000	*2013 AMD'000*
Demand and less than 1 month	1,618,707	1,899,373
From 1 to 3 months	3,871,213	3,661,249
From 3 to 12 months	13,696,577	8,220,658
More than 1 year	4,206,824	3,056,312
	23,393,321	16,837,592

24. Risk management (continued)

(d) Liquidity risk (continued)

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2014:

AMD'000	*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*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	4,244,173	–	–	–	–	–	–	4,244,173
Available-for-sale financial assets	–	21,723	47,825	3,099,075	–	13,160	–	3,181,783
Amounts due from banks	970,868	5,012,954	3,288,038	–	–	6,662,147	–	15,934,007
Loans to customers	402,196	832,386	8,741,492	8,737,108	6,677,377	–	3,044,074	28,434,633
Property, equipment and intangible assets	–	–	–	–	–	1,031,801	–	1,031,801
Other assets	12,550	10,436	49,161	335,163	53,450	–	–	460,760
Total assets	5,629,787	5,877,499	12,126,516	12,171,346	6,730,827	7,707,108	3,044,074	53,287,157
Liabilities								
Deposits and balances from banks	875,556	811,409	3,150,228	302,019	–	–	–	5,139,212
Amounts payable under repurchase agreements	3,057,139	–	–	–	–	–	–	3,057,139
Current accounts and deposits from customers	6,287,969	5,738,047	14,602,150	7,209,422	–	–	–	33,837,588
Other borrowed funds	2,418,178	15,387	48,603	511,001	355,364	–	–	3,348,533
Deferred tax liabilities	–	–	–	–	–	10,548	–	10,548
Other liabilities	130,173	4,980	3,912	816	6,943	–	–	146,824
Total liabilities	12,769,015	6,569,823	17,804,893	8,023,258	362,307	10,548	–	45,539,844
Net position	(7,139,228)	(692,324)	(5,678,377)	4,148,088	6,368,520	7,696,560	3,044,074	7,747,313

General economic environment in Armenia stipulates one year or less tenor for customer deposits while longer than one year tenor for loans to customers, resulting in negative liquidity gap in "Up to 1 year" range. The negative gap amounted to AMD 13,509,929 thousand as at 31 December 2014 (31 December 2013: AMD 10,654,869 thousand), being 36.4% of total liabilities, maturing in the same range (31 December 2013: 37.3%).

Negative gap is significantly mitigated by a steady level of core current accounts and high reinvestment rate of term deposits. Daily average balance of demand deposits amounted to AMD 4,160,187 thousand (31 December 2013: AMD 4,740,733 thousand). In 2014 on average 88.1% of matured term deposits were renewed by the customers (2013: 83.3%).

24. Risk management (continued)

(d) Liquidity risk (continued)

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2013:

AMD'000	*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*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	8,327,826	–	–	–	–	–	–	8,327,826
Available-for-sale financial assets	–	30,258	48,446	3,347,383	–	13,160	–	3,439,247
Amounts due from banks	623,958	1,216,801	3,074,696	–	–	194,557	–	5,110,012
Loans to customers	366,645	873,717	3,172,508	12,703,199	5,003,641	–	1,985,451	24,105,161
Property, equipment and intangible assets	–	–	–	–	–	1,072,720	–	1,072,720
Other assets	59,615	–	139,881	361,069	–	–	–	560,565
Total assets	9,378,044	2,120,776	6,435,531	16,411,651	5,003,641	1,280,437	1,985,451	42,615,531
Liabilities								
Deposits and balances from banks	10,369	725,478	678,271	1,025,759	–	–	–	2,439,877
Amounts payable under repurchase agreements	750,641	–	–	–	–	–	–	750,641
Current accounts and deposits from customers	6,399,300	5,584,567	9,348,080	3,014,766	42,090	–	–	24,388,803
Other borrowed funds	4,834,125	20,335	60,764	454,849	471,091	–	–	5,841,164
Deferred tax liabilities	–	–	–	–	–	26,525	–	26,525
Other liabilities	167,545	1,895	7,850	4,935	7,121	–	–	189,346
Total liabilities	12,161,980	6,332,275	10,094,965	4,500,309	520,302	26,525	–	33,636,356
Net position	(2,783,936)	(4,211,499)	(3,659,434)	11,911,342	4,483,339	1,253,912	1,985,451	8,979,175

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities at the reporting date and for the reporting year are as follows:

	2014 (Unaudited)	*2013 (Unaudited)*
For December	252.5%	251.5%
Average for the period	298.3%	223.0%
Maximum for the period	367.1%	276.0%
Minimum for the period	224.7%	179.1%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA (60% minimum).

25. Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2014, this minimum level is 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2014 and 31 December 2013.

25. Capital management (continued)

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December 2014 and 2013:

	(Unaudited) *2014* *AMD'000*	*(Unaudited)* *2013* *AMD'000*
Share capital	8,125,100	8,125,100
Share premium	257,149	257,149
General reserve	51,292	51,292
(Accumulated losses)/Retained earnings	(1,052,581)	430,482
Deductions	(309,315)	(401,747)
Total tier 1 capital	7,071,645	8,462,276
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	115,892	241,267
Total tier 2 capital	115,892	241,267
Total capital	7,187,537	8,703,543
Total risk weighted assets	39,708,051	37,968,598
Total capital expressed as a percentage of risk-weighted assets	18.1%	22.9%
Total tier 1 capital expressed as a percentage of risk-weighted assets	17.8%	22.3%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

26. Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2014 *AMD'000*	*2013* *AMD'000*
Contracted amount		
Loan and credit line commitments	607,921	1,142,960
Credit card commitments	138,648	183,158
Guarantees and letters of credit	51,213	104,672
	797,782	1,430,790

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2014 of these credit related commitments, AMD 465,580 thousand (31 December 2013: AMD 866,690 thousand) are to four customers (31 December 2013: five customers). This exposure represents a significant credit risk exposure to the Bank.

27. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 500,000 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 90,000 thousand insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 the Republic of Armenia that are substantially 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.

28. Related party transactions

(a) Control relationships

The Bank's parent Company is "Byblos Bank S.A.L", which owns 65% of the share capital. The parent Company produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

(b) Transactions with the members of the Board of Directors and the Management Committee

Total remuneration included in personnel expenses for the years ended 31 December 2014 and 2013 is as follows:

	2014 AMD'000	*2013 AMD'000*
Short-term employee benefits	325,002	272,282

These amounts include cash and non-cash benefits in respect of the members of the Board of Directors and the Management Committee.

The outstanding balances and average effective interest rates as at 31 December 2014 and 2013 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	2014 AMD'000	*Average interest rate, %*	*2013 AMD'000*	*Average interest rate, %*
Statement of financial position				
Loans issued (gross)	178,900	9.8%	242,701	9.5%
Loan impairment allowance	(291)		(2,352)	
Deposits received	274,247	6.1%	331,483	5.4%

Loans to related parties are in Armenian Dram and repayable from 1 to 15 years based on the type of the loan. Loans are secured by the appropriate type of collateral, as presented in note 15 (c) (ii).

28. Related party transactions (continued)

(b) Transactions with the members of the Board of Directors and the Management Committee (continued)

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the years ended 31 December 2014 and 2013 are as follows:

	2014 AMD'000	*2013 AMD'000*
Profit or loss		
Interest income	22,667	23,013
Interest expense	(20,184)	(26,081)
Impairment reversal / (losses)	2,061	(82)

(c) Transactions with other related parties

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average effective interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the year ended 31 December 2014 with other related parties are as follows:

	Parent company		*Entity with significant influance over the Bank*		*Other subsidiaries of the parent company*		*Total*
	AMD'000	*Average effective interest rate, %*	*AMD'000*	*Average effective interest rate, %*	*AMD'000*	*Average effective interest rate, %*	*AMD'000*
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	73,327	–	–	–	61,791	–	135,118
- in EUR	21,244	–	–	–	12,466	–	33,710
- in other currencies	1,091	–	–	–	–	–	1,091
Liabilities							
Deposits and balances from banks							
- in USD	3,912,610	8.9%	–	–	–	–	3,912,610
Current accounts and deposits from customers							
- in USD	–	–	–	–	3,130,435	6.3%	3,130,435
Other borrowed funds							
- in USD	–	–	342,965	5.7%	–		342,965
Profit or loss							
Interest income	55	–	–		–		55
Interest expense	(215,976)	–	(35,856)	–	(152,615)	–	(404,447)
Fee expense	(4,345)	–	–	–	–	–	(4,345)
Net other operating expense	–	–	(146)	–	–	–	(146)

28. Related party transactions (continued)

The outstanding balances and the related average effective interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows:

	Parent company		*Entity with significant influance over the Bank*		*Other subsidiaries of the parent company*		*Total*
	AMD'000	*Average effective interest rate, %*	*AMD'000*	*Average effective interest rate, %*	*AMD'000*	*Average effective interest rate, %*	*AMD'000*
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	54,099	0.1%	–	–	19,488	0.1%	73,587
- in EUR	73,373	–	–	–	6,492	–	79,865
- in other currencies	5,529	–	–	–	–	–	5,529
Loans to banks							
- in AMD	40	–	–	–	–	–	40
Liabilities							
Deposits and balances from banks							
- in USD	2,076,446	8.9%	–	–	–	–	2,076,446
Current accounts and deposits from customers							
- in USD	–	–	–	–	1,825,082	6.0%	1,825,082
Other borrowed funds							
- in USD	–	–	878,718	5.7%	–	–	878,718
Profit or loss							
Interest income	16		–		–		16
Interest expense	(241,008)	–	(69,131)		(105,016)	–	(415,155)
Fee expense	(4,475)	–	–		–	–	(4,475)
Net other operating expense	–	–	(62)		–	–	(62)
Professional services	(2,565)	–	–		–	–	(2,565)

Cash and cash equivalents held with related parties are not secured.

29. Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The estimated fair value of all financial instruments, except for unquoted equity securities and financial instruments, disclosed in the table below, approximate their carrying values. As disclosed in note 13 the fair value of unquoted equity securities available-for-sale with a carrying value of AMD 13,160 thousand cannot be determined.

	2014			*2013*		
AMD'000	*Fair value*	*Carrying amount*	*Unrecognized gain/(loss)*	*Fair value*	*Carrying amount*	*Unrecognized gain/(loss)*
Loans to customers	28,162,411	28,434,633	(272,222)	22,385,953	24,105,161	(1,719,208)
Current accounts and deposits from customers	30,824,179	33,837,588	3,013,409	22,629,733	24,388,803	1,759,070

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models.

29. Financial assets and liabilities: fair values and accounting classifications (continued)

(a) Accounting classifications and fair values (continued)

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 8% and 14%-15% are used for discounting future cash flows from loans to banks and loans to customers, respectively
- discount rates of 8%-10% are used for discounting future cash flows from liabilities.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	*Level 1*	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
- Debt instruments	–	3,168,623	–	3,168,623
	–	3,168,623	–	3,168,623

The table below analyses financial instruments measured at fair value at 31 December 2013 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	*Level 1*	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
- Debt instruments	–	3,426,087	–	3,426,087
	–	3,426,087	–	3,426,087

Fair value of financial instruments not measured at fair value at 31 December 2014, but for which fair value is disclosed are attributed to Level 3 fair value hierarchy.

30. Subsequent events

After the reporting date the Bank has repossessed two collaterals of an individualy impaired loan in amount of AMD 629,856 thousand.