

Byblos Bank Armenia cjsc

Financial Statements

for the year ended 31 December 2015

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Independent Auditors' Report

To the Board of Directors
Byblos Bank Armenia cjsc

We have audited the accompanying financial statements of Byblos Bank Armenia cjsc (the Bank), which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2014 were audited by other auditors whose report dated 13 March 2015 expressed an unmodified opinion on those statements.


Tigran Gasparyan
Director, Engagement Partner


KPMG Armenia cjsc

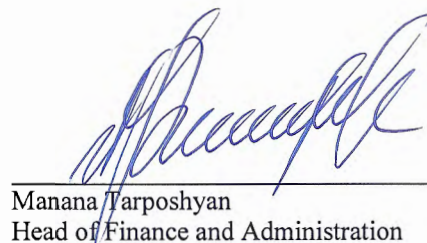
KPMG Armenia cjsc
11 March 2016

Byblos Bank Armenia cjsc
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	Notes	2015 AMD'000	2014 AMD'000
Interest income	4	3,169,375	3,245,797
Interest expense	4	(2,687,202)	(2,317,641)
Net interest income		482,173	928,156
Fee and commission income	5	101,047	91,716
Fee and commission expense	6	(51,945)	(48,407)
Net fee and commission income		49,102	43,309
Net foreign exchange gain	7	68,119	485,168
Net gain on available-for-sale financial assets		5,927	48,339
Other operating expenses, net	8	(106,231)	(71,568)
Operating income		499,090	1,433,404
Impairment losses	9	(1,335,515)	(1,305,819)
Personnel expenses		(709,801)	(699,910)
Other general administrative expenses	10	(578,899)	(518,795)
Loss before income tax		(2,125,125)	(1,091,120)
Income tax expense	11	(25,747)	(15,367)
Loss for the year		(2,150,872)	(1,106,487)
Other comprehensive loss for the year, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
Net change in fair value		(183,360)	(86,704)
Net change in fair value transferred to profit or loss		(4,742)	(38,671)
Other comprehensive loss for the year, net of income tax	11	(188,102)	(125,375)
Total comprehensive loss for the year		(2,338,974)	(1,231,862)

The financial statements as set out on pages 5 to 55 were approved by management on 11 March 2016 and were signed on its behalf by:


 Hayk Stepanyan
 Acting Chief Executive Officer


 Manana Tarposhyan
 Head of Finance and Administration

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

Byblos Bank Armenia ejsc
Statement of Financial Position as at 31 December 2015

	Notes	2015 AMD'000	2014 AMD'000
Assets			
Cash and cash equivalents	12	10,524,823	4,244,173
Available-for-sale financial assets	13		
- Held by the Bank		4,118,433	62,887
- Pledged under sale and repurchase agreements		-	3,118,896
Amounts due from banks	14	4,580,257	15,934,007
Loans to customers	15	17,954,950	28,434,633
Property, equipment and intangible assets	16	1,014,575	1,031,801
Other assets	17	1,527,210	460,760
Deferred tax assets	11	18,054	-
Total assets		39,738,302	53,287,157
Liabilities			
Deposits and balances from banks	18	662,511	5,139,212
Amounts payable under repurchase agreements	19	-	3,057,139
Current accounts and deposits from customers	20	28,572,000	33,837,588
Other borrowed funds	21	2,401,429	3,348,533
Subordinated loan from Parent	22	2,477,811	-
Deferred tax liabilities	11	-	10,548
Other liabilities	23	216,212	146,824
Total liabilities		34,329,963	45,539,844
Equity			
Share capital	24	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		(72,210)	115,892
Accumulated losses		(2,901,700)	(750,828)
Total equity		5,408,339	7,747,313
Total liabilities and equity		39,738,302	53,287,157

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

Byblos Bank Armenia cjsc
Statement of Cash Flows for the year ended 31 December 2015

	Notes	2015 AMD'000	2014 AMD'000
Cash flows from operating activities			
Interest receipts		3,351,837	3,222,967
Interest payments		(2,877,390)	(2,080,936)
Fee and commission receipts		101,051	93,264
Fee and commission payments		(51,897)	(48,425)
Net receipts from available-for-sale financial assets		5,927	47,782
Net receipts/(payments) from foreign exchange		129,863	(65,585)
Tax payments (other than income tax)		(9,837)	(6,074)
Salaries and other payments to employees		(719,306)	(683,698)
Other general administrative expenses payments		(491,078)	(424,865)
Other operating income/(expenses)		41,868	(20,663)
(Increase)/decrease in operating assets			
Available-for-sale financial assets		(1,083,948)	152,497
Amounts due from banks		11,476,824	(9,590,991)
Loans to customers		9,191,214	(2,167,156)
Other assets		(1,022,529)	137,676
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		(4,521,027)	2,174,126
Amounts payable under repurchase agreements		(3,053,802)	2,303,802
Current accounts and deposits from customers		(5,408,169)	4,966,508
Payments of other borrowed funds		(971,619)	(2,911,065)
Other liabilities		54,752	(129,125)
Net cash from/(used in) operating activities before income taxes paid		4,142,734	(5,029,961)
Income tax paid		(19,875)	(57,832)
Net cash flows from/(used in) operations		4,122,859	(5,087,793)
Cash flows used in investing activities			
Purchases of property and equipment and intangible assets		(24,353)	(101,245)
Net cash flows used in investing activities		(24,353)	(101,245)
Cash flows from financing activities			
Receipt of subordinated loan from Parent		2,382,100	-
Net cash flows from financial activities		2,382,100	-
Net increase/(decrease) in cash and cash equivalents		6,480,606	(5,189,038)
Effect of changes in exchange rates on cash and cash equivalents		(199,952)	1,105,403
Cash and cash equivalents at the beginning of the year		4,244,157	8,327,792
Cash and cash equivalents at the end of the year	12	10,524,811	4,244,157

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

Byblos Bank Armenia cjsc
Statement of Changes in Equity for the year ended 31 December 2015

AMD'000	Share capital	Share premium	Revaluation reserve for available-for-sale financial assets	Retained earnings/ (Accumulated losses)	Total
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					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
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
Balance as at 1 January 2015	8,125,100	257,149	115,892	(750,828)	7,747,313
Total comprehensive loss					
Loss for the year	-	-	-	(2,150,872)	(2,150,872)
Other comprehensive loss					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	(183,360)	-	(183,360)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	(4,742)	-	(4,742)
Total other comprehensive loss	-	-	(188,102)	-	(188,102)
Total comprehensive loss for the year	-	-	(188,102)	(2,150,872)	(2,338,974)
Balance as at 31 December 2015	8,125,100	257,149	(72,210)	(2,901,700)	5,408,339

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 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 three 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 (the Parent) – 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

The Bank's operations are located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Going concern

New requirement on minimum total capital set by the CBA

On 30 December 2014, the CBA changed the requirement on minimum regulatory capital for local banks from AMD 5,000,000 thousand to AMD 30,000,000 thousand, effective from 1 January 2017. As at 31 December 2015, the regulatory capital of the Bank amounted to AMD 7,941,713 thousand (2014: AMD 7,187,537 thousand).

The financial statements have been prepared on the going concern basis as the Parent has confirmed that, in coordination with other shareholders, it will provide the required replenishment of the Bank's total capital by the end of 2016 to ensure the compliance of the Bank with the new requirement by 1 January 2017.

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

As at 31 December 2015 and 31 December 2014, the Bank breached the prudential ratio of Central Bank of Armenia on maximum exposure to one borrower. The ratio was reported at 23.5% of regulatory capital compared to the maximum allowed of 20% (2014: 26.8%). As of the date of issue of these financial statements the breach was not eliminated. The management is actively working towards the elimination of the breach in the nearest future and as such does not expect significant consequences.

(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.

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 IFRSs 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 fair values of financial assets – note 30.

3 Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency 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.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, 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.

(c) 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 financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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:

- 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 at 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.

(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. 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. 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.

(d) 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. 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.

(e) 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.

(f) 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.

(g) 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.

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.

(h) 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.

(i) 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.

(j) 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.

(k) 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 initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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.

(l) 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.

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.

(m) Leases

Operating – Bank as lessee

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

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

New or amended standard	Summary of the requirements	Possible impact on financial statements
IFRS 9 <i>Financial Instruments</i>	<p>IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.</p> <p>IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 16 <i>Leases</i>	<p>IFRS 16 replaces the existing lease accounting guidance in IAS 17 <i>Leases</i>, IFRIC 4 <i>Determining whether an Arrangement contains a lease</i>, SIC-15 <i>Operating Leases – Incentives</i> and SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.</p> <p>Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p> <p>IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 <i>Revenue from Contracts with Customers</i> is also adopted.</p>	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS16.

4 Net interest income

	2015 AMD'000	2014 AMD'000
Interest income		
Loans to customers	2,328,612	2,435,638
Available-for-sale financial assets	440,691	446,084
Amounts due from banks	385,487	361,515
Amounts receivable under reverse repurchase agreements	-	1,440
Other	14,585	1,120
	3,169,375	3,245,797
Interest expense		
Current accounts and deposits from customers	1,773,000	1,656,496
Amounts payable under repurchase agreements	352,198	37,870
Other borrowed funds	207,498	326,898
Deposits and balances from banks	185,080	286,404
Subordinated loan from Parent	151,300	-
Other	18,126	9,973
	2,687,202	2,317,641
Net interest income	482,173	928,156

5 Fee and commission income

	2015 AMD'000	2014 AMD'000
Account servicing	27,067	24,985
Credit card maintenance	26,505	21,903
Cash entry and withdrawal	21,414	22,449
Remittances	16,970	15,961
Custodial services	4,200	3,325
Other	4,891	3,093
	101,047	91,716

6 Fee and commission expense

	2015 AMD'000	2014 AMD'000
Plastic card services	35,874	31,787
Remittances	8,054	5,676
Inquiries	3,209	4,795
Other	4,808	6,149
	51,945	48,407

7 Net foreign exchange gain

	2015 AMD'000	2014 AMD'000
Gain/(loss) on spot transactions	59,303	(109,166)
Gain from revaluation of financial assets and liabilities	8,816	594,334
	68,119	485,168

8 Other operating expense, net

	2015 AMD'000	2014 AMD'000
Fines and penalties received	36,028	18,805
Payments to State Deposit Insurance Fund	(54,386)	(45,905)
Fines and penalties paid	(17,453)	(10,033)
Payments to Financial Ombudsman	(5,308)	(4,288)
Net loss from disposal of repossessed assets	(46,679)	(14,049)
Other expenses	(18,433)	(16,098)
	(106,231)	(71,568)

9 Impairment losses

	2015 AMD'000	2014 AMD'000
Loans to customers	1,344,613	1,289,694
(Recovery)/loss from other assets	(9,098)	16,125
	1,335,515	1,305,819

Impairment losses are disclosed in notes 15 and 17.

10 Other general administrative expenses

	2015	2014
	AMD'000	AMD'000
Legal services	114,837	58,375
Depreciation and amortisation	94,326	89,422
Advertising and marketing	54,960	68,585
Maintenance of computer software	46,314	44,511
Repairs and maintenance	42,741	39,799
Insurance	35,009	33,371
Taxes other than on income	34,301	32,239
Security	32,685	29,124
Professional services	24,986	22,797
Communications and information services	19,459	19,785
Maintenance of cars	14,957	17,102
Operating lease expense	13,252	13,252
Office supplies	9,466	9,177
Membership expenses	7,536	7,560
Trainings	2,820	7,196
Travel expenses	2,630	8,758
Other	28,620	17,742
	578,899	518,795

11 Income tax expense

	2015	2014
	AMD'000	AMD'000
Current tax expense		
Current year income tax	-	-
Adjustment for prior years	(7,324)	-
	(7,324)	-
Deferred tax expense		
Origination and reversal of temporary differences	(18,423)	(15,367)
Total income tax expense	(25,747)	(15,367)

In 2015 applicable tax rate for current and deferred tax is 20% (2014: 20%).

Reconciliation of effective tax rate

	2015		2014	
	AMD'000	%	AMD'000	%
Loss before tax	(2,125,125)		(1,091,120)	
Tax at the applicable tax rate	425,025	(20%)	218,224	(20%)
Non-deductible expenses	(91,755)	4%	(13,619)	1%
Current-year losses for which no deferred tax asset is recognised	(22,050)	1%	(219,972)	20%
Derecognition of previously recognised tax losses	(118,131)	6%	-	-
Unrecognised deductible temporary differences	(218,836)	10%	-	-
	(25,747)	1%	(15,367)	1%

(a) Recognised deferred tax assets and 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 asset as at 31 December 2015 and net deferred tax liability as at 31 December 2014. Movements in temporary differences for the year ended 31 December 2015 and 2014 are presented as follows:

2015				
AMD'000	1 January 2015	Recognized in profit or loss	Recognized in other comprehensive loss	31 December 2015
Cash and cash equivalents	(867)	867	-	-
Available-for-sale financial assets	(28,972)	1	47,025	18,054
Amounts due from banks	(18,670)	18,670	-	-
Loans to customers	(82,409)	82,409	-	-
Property and equipment	2,352	(2,352)	-	-
Other assets	1,302	(1,302)	-	-
Tax losses	118,131	(118,131)	-	-
Other liabilities	(1,415)	1,415	-	-
	(10,548)	(18,423)	47,025	18,054

2014				
AMD'000	1 January 2014	Recognized in profit or loss	Recognized in other comprehensive loss	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	-	118,131	-	118,131
Other liabilities	(389)	(1,026)	-	(1,415)
	(26,525)	(15,367)	31,344	(10,548)

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2015 AMD'000	31 December 2014 AMD'000
Deductible temporary differences	218,836	-
Tax losses	360,153	219,972
	578,989	219,972

The tax losses of AMD 1,690,515 thousand and AMD 110,250 thousand expire in 2019 and 2020, respectively. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Bank can utilise the benefits therefrom.

(c) Income tax recognized in other comprehensive loss

The tax effects relating to components of other comprehensive loss for the year ended 31 December 2015 and 2014 comprise the following:

	2015			2014		
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	(229,200)	45,840	(183,360)	(108,380)	21,676	(86,704)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(5,927)	1,185	(4,742)	(48,339)	9,668	(38,671)
Other comprehensive loss	(235,127)	47,025	(188,102)	(156,719)	31,344	(125,375)

12 Cash and cash equivalents

	2015 AMD'000	2014 AMD'000
Cash on hand	411,668	575,087
Nostro accounts with the CBA, including obligatory reserves	8,997,423	3,235,811
Nostro accounts with other banks		
- OECD banks	921,105	335,348
- Other foreign banks	192,627	95,797
- Largest 10 Armenian banks	1,901	2,027
- Small and medium size Armenian banks	87	87
Total nostro accounts with other banks	1,115,720	433,259
Total cash and cash equivalents as shown in the statement of cash flows	10,524,811	4,244,157
Accrued interest	12	16
Total cash and cash equivalents	10,524,823	4,244,173

No cash and cash equivalents are impaired or past due.

Nostro accounts with the CBA

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

Banks are required to maintain a cash deposit (obligatory reserve) with the CBA, equal to 2% of the amounts attracted in Armenian drams and 20% 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 average fortnightly amount of reserve for amounts attracted in foreign currency, the sanctions may apply.

As at 31 December 2015 included in nostro accounts with the CBA, is the amount of obligatory reserve of AMD 5,138,528 thousand for amounts attracted in Armenian drams and foreign currency (2014: AMD 105,509 thousand for amounts attracted in Armenian drams). For classification of the CBA obligatory reserve for amounts attracted in foreign currency as at 31 December 2015 and 31 December 2014, see note 14.

Concentration of cash and cash equivalents

As at 31 December 2015 the Bank has one bank (31 December 2014: nil), excluding balances with the CBA, whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is AMD 825,323 thousand (31 December 2014: nil).

13 Available-for-sale financial assets

	2015 AMD'000	2014 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	4,056,428	-
- Securities of international financial institutions	48,845	49,727
	4,105,273	49,727
Equity instruments		
- Corporate shares	13,160	13,160
	4,118,433	62,887
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	-	3,118,896
	-	3,118,896

None of available-for-sale financial assets are impaired or past due.

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

Name	Country of incorporation	Main activity	% Controlled		2015 AMD'000	2014 AMD'000
			2015	2014		
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

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

	2015 AMD'000	2014 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	142,500
Derivative instruments (currency swap)	1,077	882
Loans and deposits		
- Small and medium size Armenian banks	2,916,100	4,782,584
- Largest 10 Armenian banks	1,455,518	4,488,394
- OECD banks	65,062	63,881
Total loans and deposits	4,436,680	9,334,859
Total amounts due from banks	4,580,257	15,934,007

No amounts due from banks are impaired or past due.

Obligatory reserve with the CBA, related to attracted funds in foreign currency

In December 2014 the CBA revised the procedure for obligatory reservation of attracted funds in foreign currency. The rule, effective since 18 December 2014, increased the reservation requirements against attracted in foreign currency funds and required to keep the amount of the related reserve on nostro account of the Central Bank of Armenia on a daily basis. Accordingly, the obligatory reserve for amounts attracted in foreign currency has been reclassified as amounts due to banks as at 31 December 2014.

Starting from July 2015, the CBA amended the rule back to reservation on average fortnightly basis. Accordingly, the amount of the obligatory reserve for amounts attracted in foreign currency has been reclassified as cash and cash equivalents as at 31 December 2015.

As at 31 December 2015 included in loans and deposits with OECD banks is AMD 65,062 thousand (31 December 2014: AMD 63,881 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

Credit card settlement deposit with the CBA

The credit card settlement deposit with the CBA is a non-interest bearing deposit calculated in accordance with regulations issued by the CBA and whose withdrawability is restricted.

Concentration of amounts due from banks

As at 31 December 2015 the Bank has three banks (31 December 2014: eight banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 is AMD 4,371,618 thousand (31 December 2014: AMD 15,870,127 thousand).

15 Loans to customers

	2015 AMD'000	2014 AMD'000
Loans to corporate customers		
Loans to large corporates	8,381,621	16,505,945
Loans to small and medium size companies	1,419,034	1,586,621
Total loans to corporate customers	9,800,655	18,092,566
Loans to retail customers		
Mortgage loans	9,089,860	9,276,622
Consumer loans secured by real estate	1,412,793	1,558,204
Small business loans	551,095	748,681
Auto loans	469,982	680,899
Credit card loans	260,276	317,024
Consumer loans with salary domiciliation	210,037	295,841
Other	28,652	33,607
Total loans to retail customers	12,022,695	12,910,878
Gross loans to customers	21,823,350	31,003,444
Impairment allowance	(3,868,400)	(2,568,811)
Net loans to customers	17,954,950	28,434,633

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 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	2,392,213	176,598	2,568,811
Net charge	1,156,013	188,600	1,344,613
Write-offs	-	(45,024)	(45,024)
Balance at the end of the year	3,548,226	320,174	3,868,400

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

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	3,036,666	(34,922)	3,001,744	1.2%
Impaired loans:				
- overdue more than 90 days and less than 1 year	919,969	(200,830)	719,139	21.8%
- overdue more than 1 year	4,424,986	(3,218,779)	1,206,207	72.7%
Total impaired loans	5,344,955	(3,419,609)	1,925,346	64.0%
Total loans to large corporates	8,381,621	(3,454,531)	4,927,090	41.2%
Loans to small and medium size companies				
Loans without individual signs of impairment	980,480	(11,276)	969,204	1.2%
Impaired loans:				
-not overdue	74,133	(1,483)	72,650	2.0%
- overdue more than 90 days and less than 1 year	139,078	(2,782)	136,296	2.0%
- overdue more than 1 year	225,343	(78,154)	147,189	34.7%
Total impaired loans	438,554	(82,419)	356,135	18.8%
Total loans to small and medium size companies	1,419,034	(93,695)	1,325,339	6.6%
Total loans to corporate customers	9,800,655	(3,548,226)	6,252,429	36.2%
Loans to retail customers				
Mortgage loans				
-not overdue	8,531,263	(17,063)	8,514,200	0.2%
- not overdue, but impaired	186,414	(37,283)	149,131	20.0%
- overdue less than 30 days	13,530	(5,412)	8,118	40.0%
- overdue 31-90 days	142,495	(56,998)	85,497	40.0%
- overdue 91-180 days	107,449	(42,980)	64,469	40.0%
- overdue 181-270 days	11,443	(4,577)	6,866	40.0%
- overdue more than 271 days	97,266	(38,906)	58,360	40.0%
Total mortgage loans	9,089,860	(203,219)	8,886,641	2.2%
Consumer loans secured by real estate				
- not overdue	1,317,798	(2,636)	1,315,162	0.2%
- not overdue, but impaired	5,496	(1,539)	3,957	28.0%
- overdue less than 30 days	5,475	(3,066)	2,409	56.0%
- overdue 31-90 days	29,238	(16,373)	12,865	56.0%
- overdue 91-180 days	29,686	(16,624)	13,062	56.0%
- overdue 181-270 days	3,893	(2,180)	1,713	56.0%
- overdue more than 271 days	21,207	(11,876)	9,331	56.0%
Total consumer loans secured by real estate	1,412,793	(54,294)	1,358,499	3.8%
Small business loans				
- not overdue	481,725	(963)	480,762	0.2%
- not overdue, but impaired	3,024	(756)	2,268	25.0%
- overdue less than 30 days	14,894	(7,447)	7,447	50.0%
- overdue 31-90 days	4,062	(2,031)	2,031	50.0%
- overdue 91-180 days	4,882	(2,441)	2,441	50.0%
- overdue 181-270 days	7,354	(3,677)	3,677	50.0%
- overdue more than 271 days	35,154	(17,577)	17,577	50.0%
Total small business loans	551,095	(34,892)	516,203	6.3%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Auto loans				
- not overdue	431,105	(862)	430,243	0.2%
- not overdue, but impaired	2,046	(501)	1,545	24.5%
- overdue less than 30 days	11,478	(5,624)	5,854	49.0%
- overdue 31-90 days	6,871	(3,367)	3,504	49.0%
- overdue 181-270 days	9,794	(4,799)	4,995	49.0%
- overdue more than 271 days	8,688	(4,257)	4,431	49.0%
Total auto loans	469,982	(19,410)	450,572	4.1%
Credit card loans				
- not overdue	253,144	(506)	252,638	0.2%
- not overdue, but impaired	6,932	(3,327)	3,605	48.0%
- overdue 181-270 days	200	(96)	104	48.0%
Total credit card loans	260,276	(3,929)	256,347	1.5%
Consumer loans with salary domiciliation				
- not overdue	200,170	(400)	199,770	0.2%
- not overdue, but impaired	2,944	(707)	2,237	24.0%
- overdue less than 30 days	1,952	(937)	1,015	48.0%
- overdue 31-90 days	1,045	(502)	543	48.0%
- overdue 91-180 days	3,398	(1,631)	1,767	48.0%
- overdue 181-270 days	528	(253)	275	48.0%
Total consumer loans with salary domiciliation	210,037	(4,430)	205,607	2.1%
Other retail loans				
- not overdue	28,652	-	28,652	0.0%
Total other retail loans	28,652	-	28,652	0.0%
Total loans to retail customers	12,022,695	(320,174)	11,702,521	2.7%
Total loans to customers	21,823,350	(3,868,400)	17,954,950	17.7%

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	-
Loans without individual signs of impairment	6,561,264	(75,454)	6,485,810	1.2%
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	1.2%
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	13.2%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
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				
- 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	-
Total other retail loans	33,607	-	33,607	-
Total loans to retail customers	12,910,878	(176,598)	12,734,280	1.4%
Total loans to customers	31,003,444	(2,568,811)	28,434,633	8.3%

(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 no collective provision on loans secured with cash collateral and 1.2% on other commercial non-impaired loans considering the economic environment and market loss experience.
- for impaired loans a discount up to 50% to the originally appraised value is applied if the property pledged is sold and a delay from 2 to 48 months in obtaining proceeds from the foreclosure of collateral is assumed.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2015 would be AMD 62,524 thousand lower/higher (31 December 2014: AMD 157,004 thousand lower/higher).

The impairment allowance on impaired loans to corporate customers would have been AMD 320,645 thousand higher (31 December 2014: AMD 612,819 thousand) if the market value of the collateral have been assessed 15% lower as at the reporting date.

During the year ended 31 December 2015 the Bank has renegotiated commercial loans in the amount of AMD 64,020 thousand that would otherwise be past due or impaired (31 December 2014: nil). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

(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 overdue and impaired loans will not exceed:

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

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2015 would be AMD 351,076 thousand lower/higher (31 December 2014: AMD 382,028 thousand lower/higher).

(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 following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2015			
AMD'000	Loans to customers, carrying amount	Fair value of collateral: assessed as of loan reporting date	Fair value of collateral: assessed as of loan inception date
Loans without individual signs of impairment			
Bank account turnover	1,148,473	-	1,148,473
Real estate	2,822,475	-	2,822,475
Total loans without individual signs of impairment	3,970,948	-	3,970,948
Overdue or impaired loans			
Real estate	2,281,481	2,061,644	219,837
Total overdue or impaired loans	2,281,481	2,061,644	219,837
Total loans to corporate customers	6,252,429	2,061,644	4,190,785

31 December 2014			
AMD'000	Loans to customers, carrying amount	Fair value of collateral: assessed as of loan reporting date	Fair value of collateral: assessed as of loan inception date
Loans without individual signs of impairment			
Bank account turnover	3,316,778	-	3,316,778
Term deposit	3,087,305	3,087,305	-
Real estate	4,509,619	-	4,509,619
Total loans without individual signs of impairment	10,913,702	3,087,305	7,826,397
Overdue or impaired loans			
Real estate	4,786,651	4,676,971	109,680
Total overdue or impaired loans	4,786,651	4,676,971	109,680
Total loans to corporate customers	15,700,353	7,764,276	7,936,077

The tables above excludes overcollateralisation.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

(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 2015 the Bank has obtained assets with fair value of AMD 1,568,310 by taking possession of real estate collateral of loans to corporate customers (31 December 2014: nil). During the year ended 31 December 2015 the Bank obtained real estate with a fair value of AMD 7,145 thousand by taking possession of collateral for loans to retail customers (31 December 2014: AMD 62,796 thousand).

Part of the repossessed collateral in the amount of AMD 463,176 thousand was sold during the year ended 31 December 2015 (31 December 2014: AMD 148,279 thousand).

The Bank's intention is to sell these assets as soon as it is practicable.

(d) Assets under lien

As at 31 December 2015, loans to customers with a gross value of AMD 1,201,634 thousand (31 December 2014: AMD 1,107,674 thousand) serve as collateral for deposits and balances from banks and other borrowed funds (see notes 18 and 21).

(e) 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:

	2015	2014
	AMD'000	AMD'000
Trade	3,265,776	4,876,379
Agriculture, forestry and timber	1,833,047	2,379,729
Manufacturing	1,806,886	2,535,465
Transport	1,663,834	1,790,352
Energy and gas	1,161,823	6,442,671
Public catering and other services	69,289	67,970
Loans to retail customers	12,022,695	12,910,878
	21,823,350	31,003,444
Impairment allowance	(3,868,400)	(2,568,811)
	17,954,950	28,434,633

(f) Significant credit exposures

As at 31 December 2015 the Bank has three borrowers or groups of connected borrowers (31 December 2014: seven), whose net loan balances exceed 10% of equity. The carrying value of these loans as at 31 December 2015 is AMD 2,607,166 thousand (31 December 2014: AMD 7,524,112 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 25 (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 communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2015	945,079	312,582	258,623	53,700	22,769	164,852	1,757,605
Additions	-	17,507	60,723	-	-	-	78,230
Disposals	-	(34,392)	(5,076)	-	-	(895)	(40,363)
Balance at 31 December 2015	945,079	295,697	314,270	53,700	22,769	163,957	1,795,472
Depreciation and amortization							
Balance at 1 January 2015	(143,241)	(222,201)	(194,082)	(53,700)	(19,796)	(92,784)	(725,804)
Depreciation and amortization for the year	(19,948)	(37,883)	(31,727)	-	(2,130)	(2,638)	(94,326)
Disposals	-	33,839	4,514	-	-	880	39,233
Balance at 31 December 2015	(163,189)	(226,245)	(221,295)	(53,700)	(21,926)	(94,542)	(780,897)
Carrying amount							
Balance at 31 December 2015	781,890	69,452	92,975	-	843	69,415	1,014,575
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

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the year ended 31 December 2015 (2014: nil).

17 Other assets

	2015 AMD'000	2014 AMD'000
Receivables under money transfer and clearing systems	2,584	8,456
Other receivables	3,716	1,994
Total other financial assets	6,300	10,450
Reposessed assets - land and buildings	1,387,974	275,586
Other prepayments	46,234	47,892
Income tax prepayments	63,756	51,205
Prepayments for purchase of non-current assets	152	53,500
Other	22,794	22,127
Total other non-financial assets	1,520,910	450,310
Total other assets	1,527,210	460,760

During the year ended 31 December 2015 receivables in the amount of AMD 9,098 thousand which had been impaired and written off, were collected (2014: net write-off of AMD 16,125 thousand).

Management believes that the carrying amount of reposessed assets approximately equals their fair value less costs to sell as at 31 December 2015 and 31 December 2014.

18 Deposits and balances from banks

	2015 AMD'000	2014 AMD'000
Loans and term deposits	662,507	5,139,204
Vostro accounts	4	8
	662,511	5,139,212

As at 31 December 2015 the Bank has one bank (31 December 2014: one), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 was AMD 662,507 thousand (31 December 2014: AMD 3,912,610 thousand).

19 Amounts payable under repurchase agreements

	2015 AMD'000	2014 AMD'000
Amounts due to the CBA	-	3,057,139

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 as at 31 December 2014 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.

20 Current accounts and deposits from customers

	2015 AMD'000	2014 AMD'000
Current accounts and demand deposits		
- Retail	3,663,925	3,974,227
- Corporate	607,908	534,765
Term deposits		
- Retail	22,247,750	23,967,980
- Corporate	2,052,417	5,360,616
	28,572,000	33,837,588

As at 31 December 2015 the Bank maintained customer deposit balances of AMD 60,905 thousand that serve as collateral for loans and credit related commitments granted by the Bank (31 December 2014: AMD 68,396 thousand).

As at 31 December 2015 the Bank has six customers (31 December 2014: five customers), whose balances exceed 10% of equity. These balances as at 31 December 2015 are AMD 8,435,709 thousand (31 December 2014: AMD 10,496,131 thousand).

21 Other borrowed funds

	2015 AMD'000	2014 AMD'000
Loan from International Financial Corporation (IFC)	1,310,453	1,653,201
Loans from National Mortgage Company	1,090,976	955,760
Loan from OPEC Fund for International Development (OFID)	-	396,607
Loans from European Bank for Reconstruction and Development (EBRD)	-	342,965
	2,401,429	3,348,533

Breach of covenants

The Bank breached some of its maximum covenant thresholds under the loan agreement with IFC. 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 2015 and 31 December 2014. Accordingly, loan from IFC of AMD 1,310,453 thousand is classified as being due on demand and less than one month in the interest rate gap, liquidity and maturity tables in note 25.

22 Subordinated loan from Parent

On 30 April 2015, the Bank obtained a subordinated loan from the Parent of USD 5,000 thousand, convertible into the ordinary shares of the Bank at the nominal value per share within 10 years, at the option of the holder. The loan contains mandatory and voluntary conversion options, representing forward and option financial instruments, respectively. Management believes that the fair value of both instruments is not material at loan initiation and as at 31 December 2015.

23 Other liabilities

	2015 AMD'000	2014 AMD'000
Salary and similar payables	49,132	58,360
Payables to suppliers	14,895	17,273
Other financial liabilities	50,072	19,683
Total other financial liabilities	114,099	95,316
Other taxes payable	90,608	38,880
Deferred income	3,754	4,667
Other non-financial liabilities	7,751	7,961
Total other non-financial liabilities	102,113	51,508
Total other liabilities	216,212	146,824

24 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 81,251 ordinary shares (31 December 2014: 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 (2014: nil).

25 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.

(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	Carrying amount
31 December 2015						
Interest-bearing assets						
Cash and cash equivalents	1,113,970	-	-	-	-	1,113,970
Available-for-sale financial assets	42,275	850,596	48,065	3,164,337	-	4,105,273
Amounts due from banks	3,887,876	483,742	-	-	-	4,371,618
Loans to customers	1,062,234	863,507	1,466,014	8,547,741	6,015,454	17,954,950
	6,106,355	2,197,845	1,514,079	11,712,078	6,015,454	27,545,811
Interest-bearing liabilities						
Deposits and balances from banks	31,362	17,711	28,467	584,967	-	662,507
Current accounts and deposits from customers	11,554,701	6,544,610	8,209,132	1,242,665	-	27,551,108
Other borrowed funds	1,354,098	18,715	41,852	644,997	341,767	2,401,429
Subordinated loan from Parent	60,056	-	-	-	2,417,755	2,477,811
	13,000,217	6,581,036	8,279,451	2,472,629	2,759,522	33,092,855
Interest rate gap	(6,893,862)	(4,383,191)	(6,765,372)	9,239,449	3,255,932	(5,547,044)
AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
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)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 31 December 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2015			31 December 2014		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Available-for-sale financial assets	13.9%	6.4%	-	14.0%	-	-
Amounts due from banks	-	6.6%	-	-	6.1%	-
Loans to customers	14.1%	6.3%	4.4%	14.0%	7.4%	6.0%
Interest bearing liabilities						
Deposits and balances from banks	8.2%	-	-	19.1%	8.9%	-
Amounts payable under repurchase agreements	-	-	-	22.1%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.5%	1.5%	0.6%	4.3%	2.3%	0.4%
- Term deposits	13.2%	5.6%	2.9%	11.9%	6.1%	3.0%
Other borrowed funds	9.0%	6.2%	-	8.9%	6.4%	-
Subordinated loan from parent	-	9.4%	-	-	-	-

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 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2015 and 31 December 2014, respectively, as follows:

	2015	2014
	AMD'000	AMD'000
100 bp parallel fall	71,199	64,916
100 bp parallel rise	(71,199)	(64,916)

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 2015 and 31 December 2014 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves (2014: 218 bp), respectively, is as follows:

	2015		2014	
	Net profit or loss	Equity	Net profit or loss	Equity
	AMD'000	AMD'000	AMD'000	AMD'000
100 bp parallel fall (2014: 218 bp)	-	128,828	-	104,597
100 bp parallel rise (2014: 218 bp)	-	(128,828)	-	(104,597)

(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 2015:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
Assets					
Cash and cash equivalents	5,762,189	4,083,773	646,333	32,528	10,524,823
Available-for-sale financial assets	2,694,904	1,423,529	-	-	4,118,433
Amounts due from banks	143,577	4,436,680	-	-	4,580,257
Loans to customers	5,995,776	11,843,250	115,924	-	17,954,950
Other financial assets	3,791	2,409	100	-	6,300
Total	14,600,237	21,789,641	762,357	32,528	37,184,763
Liabilities					
Deposits and balances from banks	662,511	-	-	-	662,511
Current accounts and deposits from customers	4,838,189	22,994,548	716,188	23,075	28,572,000
Other borrowed funds	1,075,145	1,326,284	-	-	2,401,429
Subordinated loan from Parent	-	2,477,811	-	-	2,477,811
Other financial liabilities	104,544	9,292	263	-	114,099
Total	6,680,389	26,807,935	716,451	23,075	34,227,850
Net position	7,919,848	(5,018,294)	45,906	9,453	2,956,913
The effect of derivatives held for risk management	(1,667,861)	1,668,938	-	-	1,077
Net position after derivatives held for risk management purposes	6,251,987	(3,349,356)	45,906	9,453	2,957,990

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	9,911,114	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 effect of derivatives held for risk management	(141,609)	142,491	-	-	882
Net position after derivatives held for risk management purposes	6,845,593	(596,074)	72,869	5,752	6,328,140

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2015 and 31 December 2014 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.

	2015 AMD'000	2014 AMD'000
10% appreciation of USD against AMD (2014: 19.1%)	(334,936)	(113,850)
10% appreciation of EUR against AMD (2014: 20.71%)	4,591	15,091

A strengthening of the AMD against the above currencies at 31 December 2015 and 31 December 2014 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 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:

	2015 AMD'000	2014 AMD'000
Assets		
Cash and cash equivalents	10,524,823	4,244,173
Available-for-sale financial assets	4,118,433	3,181,783
Amounts due from banks	4,580,257	15,934,007
Loans to customers	17,954,950	28,434,633
Other financial assets	6,300	10,450
Total maximum exposure	37,184,763	51,805,046

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 27.

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. 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 transactions 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 subject to offsetting in case of bankruptcy Financial instruments	Net amount
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)	-

(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.

The contractual maturity analysis for financial liabilities as at 31 December 2015 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 2015							
Non-derivative liabilities							
Deposits and balances from banks	27,666	3,783	18,274	30,379	785,393	865,495	662,511
Current accounts and deposits from customers	5,820,706	6,825,511	6,698,319	8,616,468	1,354,916	29,315,920	28,572,000
Other borrowed funds	1,334,417	19,916	19,390	44,823	1,382,666	2,801,212	2,401,429
Subordinated loan from Parent	-	60,056	-	-	4,529,383	4,589,439	2,477,811
Other financial liabilities	108,313	5,786	-	-	-	114,099	114,099
Total	7,291,102	6,915,052	6,735,983	8,691,670	8,052,358	37,686,165	34,227,850
Credit related commitments	803,696	-	-	-	-	803,696	803,696

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

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:

	2015 AMD'000	2014 AMD'000
Demand and less than 1 month	1,128,960	1,618,707
From 1 to 3 months	6,411,544	3,871,213
From 3 to 12 months	12,914,229	13,696,577
More than 1 year	1,237,890	4,206,824
	21,692,623	23,393,321

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	10,524,823	-	-	-	-	-	-	10,524,823
Available-for-sale financial assets	-	42,275	898,661	3,164,337	-	13,160	-	4,118,433
Amounts due from banks	4,467	3,884,486	483,742	-	-	207,562	-	4,580,257
Loans to customers	308,338	753,896	2,329,521	5,931,234	6,015,454	-	2,616,507	17,954,950
Property, equipment and intangible assets	-	-	-	-	-	1,014,575	-	1,014,575
Other assets	7,123	5,670	59,214	1,455,203	-	-	-	1,527,210
Deferred tax assets	-	-	-	-	-	18,054	-	18,054
Total assets	10,844,751	4,686,327	3,771,138	10,550,774	6,015,454	1,253,351	2,616,507	39,738,302
Liabilities								
Deposits and balances from banks	27,647	3,719	46,178	584,967	-	-	-	662,511
Current accounts and deposits from customers	5,816,029	6,752,568	14,760,738	1,242,665	-	-	-	28,572,000
Other borrowed funds	1,334,399	19,699	60,567	644,997	341,767	-	-	2,401,429
Subordinated loan from Parent	-	60,056	-	-	2,417,755	-	-	2,477,811
Other liabilities	198,938	5,820	3,907	816	6,731	-	-	216,212
Total liabilities	7,377,013	6,841,862	14,871,390	2,473,445	2,766,253	-	-	34,329,963
Net position	3,467,738	(2,155,535)	(11,100,252)	8,077,329	3,249,201	1,253,351	2,616,507	5,408,339

The general economic environment for banks in Armenia commonly results in one year or less tenor for customer deposits while longer than one year tenor for loans to customers, resulting in negative liquidity gap in the “Up to 1 year” range. The negative gap amounted to AMD 9,788,049 thousand as at 31 December 2015 (31 December 2014: AMD 13,509,929 thousand), being 33.7% of total liabilities, maturing in the same range (31 December 2014: 36.4%).

The negative gap is significantly mitigated by a steady level of core current accounts and a high reinvestment rate of term deposits. The daily average balance of demand deposits amounted to AMD 4,576,193 thousand (31 December 2014: AMD 4,160,187 thousand). During 2015 on average 81.7% of matured term deposits were renewed by the customers (2014: 88.1%).

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	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

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:

	2015 Unaudited	2014 Unaudited
For December	314.0%	252.5%
Average for the year	269.2%	298.3%
Maximum for the year	320.9%	367.1%
Minimum for the year	190.2%	224.7%

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

26 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 2015, this minimum level is 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2015 and 31 December 2014.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December 2015 and 31 December 2014:

	2015	2014
	AMD'000	AMD'000
	Unaudited	Unaudited
Share capital	8,125,100	8,125,100
Share premium	257,149	257,149
General reserve	51,292	51,292
Accumulated losses	(1,917,414)	(1,052,581)
Deductions	(920,954)	(309,315)
Total tier 1 capital	5,595,173	7,071,645
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	(72,210)	115,892
Subordinated loan	2,418,750	-
Total tier 2 capital	2,346,540	115,892
Total capital	7,941,713	7,187,537
Total risk weighted assets	34,497,607	39,708,051
Total capital expressed as a percentage of risk-weighted assets	23.0%	18.1%
Total tier 1 capital expressed as a percentage of risk-weighted assets	16.2%	17.8%

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.

27 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.

	2015 AMD'000	2014 AMD'000
Contracted amount		
Loan and credit line commitments	620,769	607,921
Credit card commitments	141,286	138,648
Guarantees and letters of credit	41,641	51,213
	803,696	797,782

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 2015 of these credit related commitments, AMD 524,705 thousand (31 December 2014: AMD 465,580 thousand) are to five customers (31 December 2014: four customers). This exposure represents a significant credit risk exposure to the Bank.

28 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.

29 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 2015 and 2014 is as follows:

	2015 AMD'000	2014 AMD'000
Short-term employee benefits	288,788	268,300

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 2015 and 31 December 2014 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	2015 AMD'000	Average effective interest rate, %	2014 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	63,760	9.7%	139,696	10.0%
Loan impairment allowance	(128)		(212)	
Deposits received	212,496	5.6%	264,368	6.2%

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).

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 2015 and 2014 are as follows:

	2015 AMD'000	2014 AMD'000
Profit or loss		
Interest income	10,020	19,132
Interest expense	(13,851)	(19,286)
Impairment release	84	1,557

(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 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows:

	Parent company		Entities with significant influence over the Bank		Other subsidiaries of the parent company		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	75,211	-	-	-	84,474	-	159,685
- in EUR	88,708	-	-	-	11,307	-	100,015
- in other currencies	7,547	-	-	-	-	-	7,547
Liabilities							
Subordinated loan from Parent							
- in USD	2,477,811	9.4%	-	-	-	-	2,477,811
Current accounts and deposits from customers							
- in USD	-	-	-	-	9	-	9
Profit or loss							
Interest income	105	-	-	-	-	-	105
Interest expense	(274,436)	-	(6,019)	-	(21,614)	-	(302,069)
Fee income	10	-	-	-	-	-	10
Fee expense	(3,068)	-	-	-	(54)	-	(3,122)
Net other operating expense	-	-	(195)	-	-	-	(195)
Professional services	(6,058)	-	-	-	-	-	(6,058)

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		Entities with significant influence over the Bank		Other subsidiaries of the parent company		
	Average effective interest rate, %		Average effective interest rate, %		Average effective interest rate, %		Total
	AMD'000		AMD'000		AMD'000		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							
Subordinated loan from parent							
- 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)
Professional services	(4,917)	-	-	-	-	-	(4,917)

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

30 Fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy, which 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 estimated fair values of all financial instruments except for unquoted equity securities available-for-sale and AMD denominated loans to customers and term deposits from customers as at 31 December 2015 approximate their carrying amounts. The fair value of unquoted equity securities available-for-sale with a carrying value of AMD 13,160 thousand (31 December 2014: AMD 13,160 thousand) could not be determined.

The fair values of AMD denominated loans to customers and current accounts and term deposits are lower than their carrying values of AMD 17,954,950 thousand (31 December 2014: AMD 28,434,633 thousand) and AMD 28,572,000 thousand (31 December 2014: AMD 33,837,588 thousand) by AMD 260,967 thousand (31 December 2014: AMD 272,222 thousand lower) and AMD 124,205 thousand (31 December 2014: AMD 3,013,409 thousand lower) respectively, as at 31 December 2015. The fair value measurements of AMD denominated loans to customers, current accounts and term deposits from customers are categorized into Level 3 and Level 2 respectively in the fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2015, 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 interim condensed statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	4,105,273	-	4,105,273

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

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.

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. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.