Grant Thornton

Consolidated Financial Statements and Independent Auditor's Report

"Converse Bank" closed joint stock company

31 December 2014

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Grant Thornton

Independent auditor's report

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To the Shareholders and Board of Directors of "Converse Bank" closed joint stock company:

We have audited the accompanying consolidated financial statements of the "Converse Bank" closed joint stock company (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as of December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of the "Converse Bank" closed joint stock company and its subsidiary as at December 31, 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing Partner

Vahagn Payan
Audit manager

Grant Thornton CJSC
April 20, 2015
Yerevan

Consolidated Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2014**	Year ended December 31, 2013 (restated)
Interest and similar income	7	**12,605,148**	10,896,817
Interest and similar expense	7	**(6,274,958)**	(5,744,154)
Net interest income		**6,330,190**	5,152,663
Fee and commission income	8	**1,676,155**	1,364,852
Fee and commission expense	8	**(536,449)**	(516,962)
Net fee and commission income		**1,139,706**	847,890
Net trading income	9	**824,348**	861,952
Foreign currency translation net gains/(losses) of non-trading assets and liabilities		**1,030,149**	(252,289)
Gains less losses on investments available for sale		**8,270**	43,447
Other income	10	**613,337**	840,602
Impairment charge	11	**(1,697,589)**	(306,768)
Staff costs	12	**(2,977,136)**	(3,077,479)
Depreciation of property and equipment	21	**(670,801)**	(949,697)
Amortization of intangible assets	22	**(88,533)**	(111,456)
Other expenses	13	**(2,143,746)**	(2,318,052)
Profit before income tax		**2,368,195**	730,813
Income tax expense	14	**(305,694)**	(291,436)
Profit for the year		**2,062,501**	439,377
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**-**	2,414,982
Income tax relating to items that will not be reclassified to profit or loss		**-**	(1,077,888)
Net income from items that will not be reclassified subsequently to profit or loss		**-**	1,337,094
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain/ (loss) from changes in fair value		**(574,325)**	839,237
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments		**(15,277)**	(47,488)
Income tax relating to items that will be reclassified subsequently to profit or loss		**117,920**	(158,349)
Net income from items that will be reclassified subsequently to profit or loss		**(471,682)**	633,400
Other comprehensive income for the year, net of tax		**(471,682)**	1,970,494
Total comprehensive income for the year		**1,590,819**	2,409,871

Consolidated Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2014	As of December 31, 2013 (restated)	As of January 1, 2013 (restated)
ASSETS				
Cash and cash equivalents	15	**27,841,421**	21,103,554	35,899,638
Trading securities	16	**-**	268,904	168,448
Amounts due from other financial institutions	17	**7,412,250**	2,884,009	5,966,433
Derivative financial assets		**-**	-	2,135
Loans and advances to customers	18	**92,888,015**	79,958,455	59,732,923
Investments available for sale	19	**1,943,118**	7,544,409	5,337,527
Securities pledged under repurchase agreements	20	**6,707,452**	-	-
Property, plant and equipment	21	**7,297,407**	7,357,158	4,879,701
Intangible assets	22	**253,290**	191,883	178,371
Repossessed assets	23	**2,329,501**	1,012,014	2,758,321
Prepaid income taxes		**-**	46,763	53,295
Other assets	24	**961,455**	1,015,868	903,363
TOTAL ASSETS		**147,633,909**	121,383,017	115,880,155
LIABILITIES AND EQUITY				
Liabilities				
Subordinated debt	25	**8,272,556**	7,390,036	3,691,864
Amounts due to financial institutions	26	**21,466,662**	14,830,469	13,398,510
Amounts due to customers	27	**92,435,546**	78,078,901	81,190,736
Derivative liabilities	28	**180,645**	-	-
Trading liabilities	29	**786,549**	-	-
Current income tax liabilities		**125,931**	-	-
Deferred income tax liabilities	14	**1,358,887**	1,528,345	204,383
Other liabilities	30	**502,850**	497,782	459,127
Total liabilities		**125,129,626**	102,325,533	98,944,620
Equity				
Share capital	31	**7,002,033**	4,860,033	4,860,033
Share premium		**63,233**	63,233	63,233
Statutory general reserve		**844,898**	780,365	715,505
Other reserves		**4,325,879**	4,873,554	3,160,131
Retained earnings		**10,268,240**	8,480,299	8,136,633
Total equity		**22,504,283**	19,057,484	16,935,535
TOTAL LIABILITIES AND EQUITY		**147,633,909**	121,383,017	115,880,155

The financial statements from pages 3 to 66 were approved and signed by the Bank's Executive Director and Chief Accountant on April 20, 2015.

Tigran Davtyan
Executive Director

Gohar Harutyunyan
Chief accountant

The accompanying notes on pages 7 to 66 are an integral part of these financial statements.

Consolidated Statement of changes in equity

In thousand Armenian drams

	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2013 (restated)	4,860,033	63,233	715,505	185,673	2,974,458	8,136,633	16,935,535
Distribution to reserve	-	-	64,860	-	-	(64,860)	-
Dividends to shareholders	-	-	-	-	-	(287,922)	(287,922)
Transactions with owners	-	-	64,860	-	-	(352,782)	(287,922)
Profit for the year	-	-	-	-	-	439,377	439,377
Other comprehensive income:							
Adjustment to reserve on amortization of PPE	-	-	-	-	(257,071)	257,071	-
Revaluation of PPE	-	-	-	-	2,414,982	-	2,414,982
Net unrealized gains from changes in fair value	-	-	-	839,237	-	-	839,237
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	-	(47,488)	-	-	(47,488)
Income tax relating to components of other comprehensive income	-	-	-	(158,349)	(1,077,888)	-	(1,236,237)
Total comprehensive income for the year	-	-	-	633,400	1,080,023	696,448	2,409,871
Balance as of December 31, 2013 (restated)	**4,860,033**	**63,233**	**780,365**	**819,073**	**4,054,481**	**8,480,299**	**19,057,484**
Increase in share capital	**2,142,000**	**-**	**-**	**-**	**-**	**-**	**2,142,000**
Distribution to reserve	**-**	**-**	**64,533**	**-**	**-**	**(64,533)**	**-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(286,020)**	**(286,020)**
Transactions with owners	**2,142,000**	**-**	**64,533**	**-**	**-**	**(350,553)**	**1,855,980**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,062,501**	**2,062,501**
Other comprehensive income:							
Adjustment to reserve on amortization of PPE	**-**	**-**	**-**	**-**	**(75,993)**	**75,993**	**-**
Net unrealized loss from changes in fair value	**-**	**-**	**-**	**(574,325)**	**-**	**-**	**(574,325)**
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments	**-**	**-**	**-**	**(15,277)**	**-**	**-**	**(15,277)**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**117,920**	**-**	**-**	**117,920**
Total comprehensive income for the year	**-**	**-**	**-**	**(471,682)**	**(75,993)**	**2,138,494**	**1,590,819**
Balance as of December 31, 2014	**7,002,033**	**63,233**	**844,898**	**347,391**	**3,978,488**	**10,268,240**	**22,504,283**

Consolidated Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2014**	Year ended December 31, 2013 (restated)
Cash flows from operating activities		
Profit before tax	**2,368,195**	730,813
Adjustments for		
Amortization and depreciation allowances	**759,334**	**1,061,153**
Loss/ (gain) from sale of repossessed assets	**(76,448)**	**1,625**
Impairment charge	**1,697,589**	**306,768**
Impairment of repossessed assets	**16,738**	**197,246**
Impairment of property, plant and equipment	**-**	**10,471**
Net loss from changes in fair value of derivative instruments	**180,645**	**-**
Foreign currency translation net (gains)/losses of non-trading assets and liabilities	**(1,030,149)**	**252,289**
Interest receivable	**(480,183)**	**-**
Interest payable	**184,297**	**1,005,739**
Cash flows from operating activities before changes in operating assets and liabilities	**3,620,018**	3,566,104
(Increase)/decrease in operating assets		
Purchase of investment securities	**(626,991)**	(1,515,739)
Amounts due from other financial institutions	**(3,862,376)**	3,055,104
Derivative assets	**-**	2,135
Short-term loans and advances to customers	**(5,397,924)**	(21,125,838)
Repossessed assets	**273,939**	2,120,450
Other assets	**10,165**	(108,927)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(897,890)**	1,098,159
Amounts due to customers	**5,291,054**	(2,905,130)
Other liabilities	**109,561**	19,774
Net cash flow used in operating activities before income tax	**(1,480,444)**	(15,793,908)
Income tax paid	**(182,600)**	(197,179)
Net cash used in operating activities	**(1,663,044)**	(15,991,087)
Cash flows from investing activities		
Purchase of property and equipment	**(613,681)**	(1,186,827)
Proceeds from sale of property and equipment	**2,631**	164,183
Purchase of intangible assets	**(149,940)**	(124,968)
Net cash used in investing activities	**(760,990)**	(1,147,612)
Cash flow from financing activities		
Proceeds from issue of share capital	**2,142,000**	-
Loans received from financial institutions	**7,628,780**	171,138
Long- term loans to customers	**(473,525)**	(1,543,801)
Proceeds from subordinated debt issued	**(145,081)**	3,426,163
Dividends paid to shareholders	**(286,020)**	(287,922)
Net cash from financing activities	**8,866,154**	1,765,578
Net increase/(decrease) in cash and cash equivalents	**6,442,120**	(15,373,121)
Cash and cash equivalents at the beginning of the year	**21,103,554**	35,899,638
Exchange differences on cash and cash equivalents	**295,747**	577,037
Cash and cash equivalents at the end of the year (Note 15)	**27,841,421**	21,103,554
Supplementary information:		
Interest received	**12,124,965**	10,923,988
Interest paid	**(6,279,348)**	(4,738,415)

The accompanying notes on pages 7 to 66 are an integral part of these financial statements.

Accompanying notes to the consolidated financial statements

1 Principal activities

"Converse Bank" CJSC is the parent company of the Group, which is comprised of the Bank and its subsidiaries (the "Group").

"Converse Bank" CJSC is a closed joint-stock bank, which was incorporated in the Republic of Armenia in 1994. The Bank is regulated by the legislation of RA and conducts its business under license number 57, granted on November 28, 1994 by the Central Bank of Armenia (the "CBA").

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

The Bank's main office is in Yerevan and its 32 branches are located in Yerevan and in different regions, and 1 branch is located in NKR. The registered office of the Bank is located at 26/1 Vazgen Sargsyan Str., Yerevan, RA.

Subsidiary of the Bank

The consolidated financial statements include the following subsidiary:

December 31, 2014 Subsidiary	Ownership % 2014	2013	2012	Country	Date of incorporation	Industry
"Converse Collection" LLC	100 %	100 %	100 %	Armenia	April 20,2000	Transportation of cash, cash equivalents and other assets

2 Armenian business environment

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

The consolidated financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2014.

IAS 32 **(Amendment)** *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of 'currently has a legally enforceable right of set-off': the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.
- Since there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments have been applied retrospectively in accordance with their transitional provisions. As the Group does not currently present any of its financial assets and financial liabilities on a net basis using the provisions of IAS 32, these amendments had no material effect on the consolidated financial statements for any period presented.

IAS 36 (Amendment) *Recoverable Amount Disclosure for Non-Financial Assets*

These amendments clarify that the entity is required to disclose the recoverable amount of an asset (or cash generating unit) wherever an impairment loss has been recognized or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired asset is based on fair value less costs of disposal, including:

- additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made
- the discount rates used if fair value less costs of disposal is measured using a present value technique.

The amendments have been applied retrospectively in accordance with their transitional provisions.

IFRS 10, 12 and IAS 27 Investment Entities

The Amendments define an investment entity and provide detailed application guidance on that definition. Entities that meet the definition are required to measure investments that are controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss instead of consolidating them. The Amendments also introduce new disclosure requirements for investment entities.
The amendments have been applied retrospectively in accordance with their transitional provisions

3.5 Standards and interpretations not yet applied by the Bank

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

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

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

IFRS 9 Financial Instruments (2014)

The IASB recently released *IFRS 9 Financial Instruments* (2014), representing the completion of its project to replace *IAS 39 Financial Instruments: Recognition and Measurement.* The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.
The Group’s management have yet to assess the impact of IFRS 9 on these consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. The Group's management have not yet assessed the impact of IFRS 15 on these consolidated financial statements.

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

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*

4 Summary of significant accounting policies

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

4.1 Basis of consolidation

Subsidiary, which is entity where the parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary, are consolidated. Subsidiary is consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Group. Subsidiary has a reporting date of 31 December.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

4.2 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Net trading income

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

Operating rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases and is recorded in the statement of profit or loss and other operating income in "Other income".

4.3 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

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

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

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AMD (the Group's presentation currency) are translated into AMD upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

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

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

	December 31, 2014	December 31, 2013
AMD/1 US Dollar	**474.97**	405.64
AMD/1 EUR	**577.47**	559.54

4.4 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4.5 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.6 Precious metals

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

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

4.7 Amounts due from other financial institutions

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

4.8 Financial instruments

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.9 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.10 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.11 Repurchase and reverse repurchase agreements

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

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

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

4.12 Leases

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.
When the Group takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating - Group as lessor

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

4.13 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation, except land and buildings. The Bank’s buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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

	Useful life (years)	Rate (%)
Buildings	20	5
Computers	1	100
Vehicles	5	20
Equipment	5	20
Other fixed assets	5	20

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

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

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

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

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

Along with the usage of fixed assets, the difference of the calculated depreciation based on the revalued amount of the asset and calculated depreciation based on the cost of the asset is transferred to retained earnings.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.15 Repossessed assets

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

4.16 Grants

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

4.17 Borrowings

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

4.18 Financial guarantees

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

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

4.19 Provisions

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

4.20 Equity

Share capital

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

Share premium

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

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

Revaluation reserve for available-for-sale securities

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

4.21 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 34).

Classification of investment securities

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

Related party transactions

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

Impairment of loans and receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 32.

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

Impairment of available-for-sale equity investments

The Group determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Reclassification and restatement of financial statements

When preparing financial statements for the year 2014, the financial statements of the Bank for the years 2012 and 2013 were restated. As a basis for restatement served the fact that the Bank's Management made a decision to publish consolidated financial statements of the Bank and its subsidiary "Converse Collection" LLC.

Consolidated financial statements, including comparable information of previous years, are presented as if the adjustment has been performed in the period when its implementation was needed. Thus, the adjusted amount regarding to each presented period relates to the financial information of the given year. The adjustment amount regarding the periods prior to comparable information of consolidated financial statements is adjusted in the earliest prior period presented.

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Below are presented figures disclosed in the previous period till the restatement, the adjustment made in the result of restatement and the restated final figures.

Representation of consolidated statement of financial position

In thousand Armenian drams	Year ended December 31, 2013	Restatement result	Year ended December 31, 2013 (restated)	Year ended January 01, 2013	Restatement result	Year ended January 01, 2013 (restated)
ASSETS						
Cash and cash equivalents	**21,103,526**	**28**	**21,103,554**	35,899,638	-	35,899,638
Trading securities	**268,904**	**-**	**268,904**	168,448	-	168,448
Amounts due from other financial institutions	**2,883,839**	**170**	**2,884,009**	5,966,433	-	5,966,433
Derivative financial assets	**-**	**-**	**-**	2,135	-	2,135
Loans and advances to customers	**79,957,304**	**1,151**	**79,958,455**	59,732,908	15	59,732,923
Investments available for sale	**7,594,409**	**(50,000)**	**7,544,409**	5,387,527	(50,000)	5,337,527
Property, plant and equipment	**7,313,542**	**43,616**	**7,357,158**	4,811,309	68,392	4,879,701
Intangible assets	**191,883**	**-**	**191,883**	178,364	7	178,371
Repossessed assets	**1,012,014**	**-**	**1,012,014**	2,758,321	-	2,758,321
Prepaid income taxes	**46,763**	**-**	**46,763**	56,750	(3,455)	53,295
Other assets	**998,479**	**17,389**	**1,015,868**	872,527	30,836	903,363
Total assets	**121,370,663**	**12,354**	**121,383,017**	115,834,360	45,795	115,880,155
LIABILITIES AND EQUITY						
Liabilities						
Subordinated debt	**-**	**7,390,036**	**7,390,036**	-	3,691,864	3,691,864
Amounts due to CB of RA	**4,043,242**	**(4,043,242)**	**-**	4,492,089	(4,492,089)	-
Amounts due to financial institutions	**11,951,850**	**2,878,619**	**14,830,469**	10,070,868	3,327,642	13,398,510
Amounts due to customers	**84,422,004**	**(6,343,103)**	**78,078,901**	83,833,092	(2,642,356)	81,190,736
Deferred income tax liabilities	**1,533,878**	**(5,533)**	**1,528,345**	207,519	(3,136)	204,383
Other liabilities	**486,759**	**11,023**	**497,782**	451,232	7,895	459,127
Total liabilities	**102,437,733**	**(112,200)**	**102,325,533**	99,054,800	(110,180)	98,944,620
Equity						
Share capital	**4,860,033**	**-**	**4,860,033**	4,860,033	-	4,860,033
Share premium	**63,233**	**-**	**63,233**	63,233	-	63,233
Statutory general reserve	**780,365**	**-**	**780,365**	715,505	-	715,505
Other reserves	**4,873,554**	**-**	**4,873,554**	3,160,131	-	3,160,131
Retained earnings	**8,355,745**	**124,554**	**8,480,299**	7,980,658	155,975	8,136,633
Total equity	**18,932,930**	**124,554**	**19,057,484**	16,779,560	155,975	16,935,535
Total liabilities and equity	**121,370,663**	**12,354**	**121,383,017**	115,834,360	45,795	115,880,155

Representation of consolidated statement of profit or loss and other comprehensive income

In thousand Armenian drams	Year ended December 31, 2013	Restatement result	Year ended December 31, 2013 (restated)
Interest and similar income	10,896,817	-	10,896,817
Interest and similar expense	(5,757,518)	13,364	(5,744,154)
Net interest income	5,139,299	13,364	5,152,663
Fee and commission income	1,364,852	-	1,364,852
Fee and commission expense	(516,962)	-	(516,962)
Net fee and commission income	847,890	-	847,890
Net trading income	861,952	-	861,952
Foreign currency translation net gains/(losses) of non-trading assets and liabilities	(252,289)	-	(252,289)
Gains less losses on investments available for sale	43,447	-	43,447
Other income	766,417	74,185	840,602
Impairment charge	(300,139)	(6,629)	(306,768)
Staff costs	(2,958,244)	(119,235)	(3,077,479)
Depreciation of property and equipment	(924,603)	(25,094)	(949,697)
Amortization of intangible assets	(111,449)	(7)	(111,456)
Other expenses	(2,349,026)	30,974	(2,318,052)
Profit before income tax	763,255	(32,442)	730,813
Income tax expense	(292,457)	1,021	(291,436)
Profit for the year	470,798	(31,421)	439,377
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE	2,414,982	-	2,414,982
Income tax relating to items that will not be reclassified to profit or loss	(1,077,888)	-	(1,077,888)
Net income from items that will not be reclassified subsequently to profit or loss	1,337,094	-	1,337,094
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain from changes in fair value	839,237	-	839,237
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments	(47,488)	-	(47,488)
Income tax relating to items that will be reclassified subsequently to profit or loss	(158,349)	-	(158,349)
Net income from items that will be reclassified subsequently to profit or loss	633,400	-	633,400
Other comprehensive income for the year, net of tax	1,970,494	-	1,970,494
Total comprehensive income for the year	2,441,292	(31,421)	2,409,871

7 Interest and similar income and expense

In thousand Armenian drams	2014	2013
Loans and advances to customers	**10,598,394**	9,758,711
Debt securities available-for-sale	**824,506**	751,747
Amounts due from other financial institutions	**420,476**	218,131
Reverse repurchase transactions	**134,685**	100,162
Interest accrued on individually impaired financial assets	**589,990**	62,550
Other interest income	**37,097**	5,516
Total interest and similar income	**12,605,148**	10,896,817
Amounts due to customers	**4,899,909**	4,433,565
Amounts due to financial institutions	**1,321,499**	1,309,808
Repurchase transactions	**53,550**	781
Total interest and similar expense	**6,274,958**	5,744,154

8 Fee and commission income and expense

In thousand Armenian drams	2014	2013
Cash operation	**206,355**	114,518
Wire transfer fees	**596,845**	446,762
Loans	**57,738**	125,156
Plastic cards operations	**752,315**	632,317
Guarantees and letters of credit	**4,446**	23,997
Other	**58,456**	22,102
Total fee and commission income	**1,676,155**	1,364,852
Wire transfer fees	**79,254**	63,827
Cash operations	**70,965**	148,444
Plastic cards operations	**351,920**	283,569
Other expenses	**34,310**	21,122
Total fee and commission expense	**536,449**	516,962

9 Net trading income

In thousand Armenian drams	2014	2013
Net gains from foreign currency transactions	**1,128,306**	813,263
Net gain/(loss) from trading securities	**(22,375)**	45,768
Net loss from changes in fair value of derivative instruments	**(180,645)**	-
Net gain/(loss) on trading of derivative instruments	**(68,390)**	2,921
Net loss from fair value measurement of trading liabilities	**(32,548)**	-
Total net trading income	**824,348**	861,952

10 Other income

In thousand Armenian drams	2014	2013
Fines and penalties received	**327,452**	464,426
Net income from operations with precious metals	**14,538**	20,810
Income from grants	**2,422**	2,422
Income from sale of fixed assets	**76,448**	-
Dividend income	**2,810**	2,317
Income from cash collection services	**82,265**	79,543
Other income	**107,402**	271,084
Total other income	**613,337**	840,602

11 Impairment charge

In thousand Armenian drams	2014	2013
Loans and advances to customers (Note 18)	**1,646,181**	291,700
Other assets (Note 24)	**69,800**	6,388
Other provisions (Note 32)	**(18,392)**	8,680
Total impairment charge	**1,697,589**	306,768

12 Staff costs

In thousand Armenian drams	2014	2013
Wages	**2,956,505**	3,055,249
Other expenses	**20,631**	22,230
Total staff costs	**2,977,136**	3,077,479

13 Other expenses

In thousand Armenian drams	**2014**	2013
Fixed assets maintenance	**106,217**	132,375
Consulting and other services	**49,586**	65,425
Operating lease	**408,789**	371,573
Taxes, other than income tax, duties	**20,899**	15,223
Advertising costs	**347,844**	435,907
Insurance expenses	**112,694**	120,997
Impairment loss on fixed assets	**600**	10,471
Impairment loss on foreclosed assets	**16,738**	197,246
Loss on disposal of PPE	**-**	1,625
Communications	**124,872**	125,692
Security	**176,122**	159,287
Insurance of deposits	**97,128**	83,369
Office supplies	**46,181**	47,598
Business trip expenses	**19,910**	14,946
Armenian Software expenses	**137,520**	120,871
Plastic card expenses	**39,143**	35,375
Expenses related to ARCA	**109,632**	93,126
Penalties paid	**400**	647
Utility expenses	**121,886**	89,838
Other expenses	**207,585**	196,461
Total other expense	**2,143,746**	2,318,052

14 Income tax expense

In thousand Armenian drams	**2014**	2013
Current tax expense	**338,922**	203,711
Adjustments of current income tax of previous years	**18,310**	-
Deferred tax expense/ (benefit)	**(51,538)**	87,725
Total income tax expense	**305,694**	291,436

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2013: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2014	Effective rate (%)	2013	Effective rate (%)
Profit before tax	**2,368,195**		730,813	
Income tax at the rate of 20%	**473,639**	**20**	146,162	20
Non-taxable income	**(105,906)**	**(4)**	(20,912)	(3)
Non-deductible expenses	**125,681**	**5**	155,031	21
Foreign exchange losses	**(206,030)**	**(9)**	11,155	2
Adjustment to previous year income tax	**18,310**	**1**	-	-
Income tax expense	**305,694**	**13**	291,436	40

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2013	Recognized in profit or loss	Recognized in other comprehensive income	As of December 31, 2014
Trading securities	3,822	-	-	3,822
Property, plant and equipment	33,512	10,017	-	43,529
Repossesses assets	-	7,752	-	7,752
Other assets	-	22,613	-	22,613
Amounts due to customers	-	10,061	-	10,061
Other liabilities	28,794	(1,034)	-	27,760
Total deferred tax assets	66,128	49,409	-	115,537
Securities available for sale	(204,766)	-	117,920	(86,846)
Loans and advances to customers	(350,417)	(42,528)	-	(392,945)
Property, plant and equipment	(1,013,621)	18,988	-	(994,633)
Other assets	(25,669)	25,669	-	-
Total deferred tax liability	(1,594,473)	2,129	117,920	(1,474,424)
Net deferred tax liability	(1,528,345)	51,538	117,920	(1,358,887)

In thousand Armenian drams	As of December 31, 2012	Recognized in profit or loss	Recognized in other comprehensive income	As of December 31, 2013
Trading securities	3,822	-	-	3,822
Property, plant and equipment	15,554	17,958	-	33,512
Other liabilities	21,464	7,330	-	28,794
Total deferred tax assets	40,840	25,288	-	66,128
Securities available for sale	(46,417)	-	(158,349)	(204,766)
Loans and advances to customers	(147,020)	(203,397)	-	(350,417)
Property, plant and equipment	-	64,267	(1,077,888) *	(1,013,621)
Other assets	(51,786)	26,117	-	(25,669)
Total deferred tax liability	(245,223)	(113,013)	(1,236,237)	(1,594,473)
Net deferred tax liability	(204,383)	(87,725)	(1,236,237)	(1,528,345)

*Due to changes in the tax legislation in 2012, the tax base of revalued fixed assets changed and the Bank has formed deferred tax liability in respect of revaluation reserve of fixed assets in 2013.

15 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Cash on hand	**8,049,424**	6,630,194
Correspondent accounts with the CBA	**17,343,318**	9,930,206
Placements with other banks	**2,448,679**	4,543,154
Total cash and cash equivalents	**27,841,421**	21,103,554

As of 31 December 2014 correspondent account with Central Group of Armenia includes the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Group denominated in Armenian drams and 20% of certain obligations of the Group, denominated in foreign currency (2013: 4% of obligations denominated in Armenian drams and 12% of obligations of the Group, denominated in foreign currency) and amounts to AMD 15,269,468 thousand (2013: AMD 8,979,409 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 December 2014 placements with other Banks in the amount of AMD 2,115,481 thousand (86%) were due from three Banks (2013: 4,045,977 thousand (89%) were due from three Banks).

Non-cash transactions performed by the Group during 2014 represent the repayment of the loans in the amount of AMD 1,906,388 thousand by tangible assets (2013: AMD 1,042,627 thousand).

16 Trading securities

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Trading securities issued by the RA government-unquoted	**-**	214,792
RA corporate bonds	**-**	54,112
Total trading securities	**-**	268,904

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

In thousand Armenian drams	**As of December 31, 2014**		As of December 31, 2013	
	%	**Maturity**	%	Maturity
Securities issued by the RA government	**-**	**-**	9.07-10.84	2015-2028
RA corporate bonds	**-**	**-**	10.24	2018

Assets held-for-trading at fair value of AMD 202,516 thousand (2013: nil) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 20).

17 Amounts due from other financial institutions

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Deposited funds with CBA	**520,000**	520,000
Loans and deposits to financial institutions	**4,601,320**	374,507
Reverse repurchase agreements	**842,390**	1,040,365
Payment and settlement systems	**553,663**	442,412
Other	**894,877**	506,725
Total amounts due from other financial institutions	**7,412,250**	2,884,009

As of 31 December 2014 the amounts included in loans and deposits to financial institutions in the amount of AMD 4,105,177 thousand (89%) were due from two counterparties (2013: AMD 330,776 thousand (88%) due from two counterparties).

As of 31 December 2014 other amounts due from other financial institutions are guarantee deposits placed by the Group for its operations and include AMD 63,881 thousand (2013: AMD 54,557 thousand) a blocked deposit for membership in Master Card payment system and AMD 319,569 thousand (2013: AMD 272,501 thousand) a blocked deposit for membership in Visa International.

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

Correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2014 are presented as follows.

In thousand Armenian drams	As of December 31, 2014		As of December 31, 2013	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
RA corporate bonds	**873,674**	**842,390**	1,042,306	1,040,365
Total assets pledged under repurchase agreements	**889,134**	**842,390**	1,042,306	1,040,365

Securities purchased under reverse repurchase agreements at fair value of AMD 786,549 thousand (2013: nil) were resold to third parties in sale and repurchase agreements for periods not exceeding three months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 20).

18 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Loans to customers	**85,874,816**	73,877,370
Overdrafts	**11,079,459**	9,161,337
Letter of credit	**2,381**	6,637
Financial lease receivables	**408,627**	170,629
	97,365,283	83,215,973
Less allowance for loan impairment	**(4,477,268)**	(3,257,518)
Total loans and advances to customers	**92,888,015**	79,958,455

As of 31 December 2014, accrued interest income included in loans and advances to customers amounted to AMD 1,128,482 thousand (2013: AMD 732,845 thousands).

As of 31 December 2014 the effective interest rates on loans and advances to customers ranged from 5.11 to 29.02% for loans in AMD (2013: 5.11 to 27.25 % for loans in AMD) and from 5.11 to 27.25% for loans in USD, EUR and other freely convertible currencies (2013: 5.11 to 24.11 %).

During the year ended 31 December 2014 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2014 the carrying amount of such assets was AMD 2,329,501 thousand (2013: AMD 1,012,014 thousand) (See Note 23). The Bank is intended to sell these assets in a short period.

As of 31 December 2014 the Bank had a concentration of loans totalling to AMD 21,533,450 thousand due from the ten largest third party entities and parties related with them (22% of gross loan portfolio) (2013: AMD 18,925,171 thousand or 23%). An allowance for impairment in the amount of AMD 215,334 thousand (2013: AMD 1,575,601 thousand) was made against these loans.

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

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Manufacture	**3,910,335**	5,992,118
Agriculture	**2,626,374**	2,212,206
Construction	**9,210,701**	9,691,524
Trading	**11,363,683**	8,538,926
Transport and communication	**5,019,507**	7,500,383
Services	**7,499,481**	1,319,189
Consumer	**31,643,619**	27,027,398
Mortgage	**20,681,879**	16,453,609
Other sectors	**5,409,704**	4,480,620
	97,365,283	83,215,973
Less allowance for loan impairment	**(4,477,268)**	(3,257,518)
Total loans and advances to customers	**92,888,015**	79,958,455

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

In thousand Armenian drams										2014
	Manufacture	Agriculture	Construction	Trading	Transport and communi-cations	Services	Consumer	Mortgage	Other	Total
At 1 January 2014	191,031	301,154	1,528,998	541,880	87,776	58,766	129,796	375,963	42,154	3,257,518
Charge/(reversal) for the year	235,523	479,310	437,698	(22,779)	(14,861)	35,417	413,499	115,494	(33,120)	1,646,181
Amounts written off	(10,983)	(410,632)	(150,320)	(709,192)	(20,149)	(8,777)	(344,118)	(255,871)	(635,163)	(2,545,205)
Recoveries	1,447	54,902	-	606,111	19,171	16,639	125,725	270,876	1,023,903	2,118,774
At 31 December 2014	417,018	424,734	1,816,376	416,020	71,937	102,045	324,902	506,462	397,774	4,477,268
Individual impairment	383,857	404,184	1,751,415	308,031	25,874	27,659	9,243	308,064	352,345	3,570,672
Collective impairment	33,161	20,550	64,961	107,989	46,063	74,386	315,659	198,398	45,429	906,596
	417,018	424,734	1,816,376	416,020	71,937	102,045	324,902	506,462	397,774	4,477,268
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	594,235	571,391	2,714,622	740,777	237,229	60,887	54,815	864,976	866,762	6,705,694

In thousand Armenian drams										2013
	Manufacture	Agriculture	Construction	Trading	Transport and communi-cations	Services	Consumer	Mortgage	Other	Total
At 1 January 2013	2,176,076	264,738	1,638,760	427,584	137,322	28,662	226,751	289,023	26,898	5,215,814
Charge/(reversal) for the year	126,532	(8,145)	(19,948)	243,290	(95,920)	79,111	(47,981)	136,432	(121,671)	291,700
Amounts written off	(2,137,185)	-	(92,544)	(211,262)	-	(51,261)	(196,493)	(107,185)	-	(2,795,930)
Recoveries	25,608	44,561	2,730	82,268	46,374	2,254	147,519	57,693	136,927	545,934
At 31 December 2013	191,031	301,154	1,528,998	541,880	87,776	58,766	129,796	375,963	42,154	3,257,518
Individual impairment	177,947	289,703	1,420,681	509,423	10,533	30,474	25,087	192,462	33,430	2,689,740
Collective impairment	13,084	11,451	108,317	32,457	77,243	28,292	104,709	183,501	8,724	567,778
	191,031	301,154	1,528,998	541,880	87,776	58,766	129,796	375,963	42,154	3,257,518
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	431,650	501,196	1,420,681	865,449	354,897	60,887	25,087	289,595	117,419	4,066,861

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

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Individuals	**53,460,989**	44,140,635
Privately held companies	**36,203,390**	33,678,591
Sole proprietors	**3,337,602**	3,516,316
State owned enterprises	**4,297,768**	1,740,763
Non-commercial institutions	**65,534**	139,668
	97,365,283	83,215,973
Less allowance for loan impairment	**(4,477,268)**	(3,257,518)
Total loans and advances to customers	**92,888,015**	79,958,455

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Mortgage loans	**20,684,359**	16,453,609
Credit card loans	**15,691,502**	14,128,198
Consumer loans	**8,271,456**	6,087,633
Gold loans	**6,563,742**	5,570,919
Car loans	**916,392**	1,240,648
Other	**1,333,538**	659,628
Total loans and advances to individuals (gross)	**53,460,989**	44,140,635

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Gross investment in finance leases, receivable:		
Not later than 1 year	**10,637**	9,652
1-5 years	**483,732**	207,369
	494,369	217,021
Unearned future finance income on finance leases	**(85,742)**	(46,392)
Net investment in finance leases	**408,627**	170,629

As of December 31, 2014 the allowance for finance lease receivables amounted to AMD 4,086 thousand (2013: AMD 670 thousand).

Implied interest rate of the lease is 10-16 %.

As of 31 December 2014 and 31 December 2013 the estimated fair value of loans and advances to customers approximates their carrying value. Refer to Note 34.

Maturity analysis of loans and advances to customers are disclosed in Note 36.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 37. The information on related party balances is disclosed in Note 33.

19 Investment available for sales

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Unquoted investments		
Government bonds	**1,047,935**	6,995,104
RA equity shares	**57,793**	57,793
Investments in funds	**223,408**	18,430
Equity shares of OECD countries	**516,821**	371,136
RA corporate bonds	**97,161**	101,946
Total investments available for sale	**1,943,118**	7,544,409

All debt securities have fixed coupons.

RA equity shares are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

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

In thousand Armenian drams	As of December 31, 2014		As of December 31, 2013	
			%	Maturity
Government bonds	**9.19-14.36**	**2016-2032**	7.84-10.91	2014-2032
RA corporate bonds	**12.92**	**2019**	8.60	2014

As at 31 December 2014 investments available for sale included RA government bonds pledged under repurchase agreements with CB of RA, with no right to sell or re-pledge by the counterparty, amounting to AMD 5,718,387 thousand (2013: nil). All the agreements have maturity within one months (Note 20).

20 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2014	2013	**2014**	2013
Trading securities (Note 16)	**202,516**	-	**255,322**	-
Securities under reverse repurchase (Note 17)	**786,549**	-	**754,824**	-
Investment securities (Note 19)	**5,718,387**	-	**5,496,956**	-
Total (Note 26)	**6,707,452**	-	**6,507,102**	-

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

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

21 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Equipment	Vehicles	Computers	Other fixed assets	Leasehold improve-ments	Investments in PPE	Total
REVALUED AMOUNT OR COST								
As of January 1, 2013	4,377,710	561,426	256,654	1,928,636	516,438	348,131	2,521	7,991,516
Additions	25,217	80,739	8,861	417,271	175,647	478,959	133	1,186,827
Disposals	-	(31,760)	(42,869)	(56,737)	(86,851)	(17,894)	-	(236,111)
Revaluation net	2,404,511	-	-	-	-	-	-	2,404,511
Revaluation adjustment	(1,181,438)	-	-	-	-	-	-	(1,181,438)
As of December 31, 2013	**5,626,000**	**610,405**	**222,646**	**2,289,170**	**605,234**	**809,196**	**2,654**	**10,165,305**
Additions	**200,965**	**79,724**	**-**	**177,927**	**47,735**	**107,280**	**50**	**613,681**
Disposals	**-**	**(8,971)**	**(17,826)**	**(4,965)**	**(12,305)**	**(5,020)**	**-**	**(49,087)**
As of December 31, 2014	**5,826,965**	**681,158**	**204,820**	**2,462,132**	**640,664**	**911,456**	**2,704**	**10,729,899**
ACCUMULATED DEPRECIATION								
As of January 1, 2013	784,983	410,164	102,760	1,276,382	411,421	126,105	-	3,111,815
Depreciation charge	396,455	58,048	40,955	316,443	44,991	92,805	-	949,697
Disposals	-	(29,418)	(9,439)	(17,430)	(14,246)	(1,394)	-	(71,927)
Revaluation adjustment	(1,181,438)	-	-	-	-	-	-	(1,181,438)
As of December 31, 2013	**-**	**438,794**	**134,276**	**1,575,395**	**442,166**	**217,516**	**-**	**2,808,147**
Depreciation charge	**128,895**	**65,444**	**26,997**	**281,496**	**54,031**	**113,938**	**-**	**670,801**
Disposals	**-**	**(8,964)**	**(15,453)**	**(4,965)**	**(12,291)**	**(4,783)**	**-**	**(46,456)**
As of December 31, 2014	**128,895**	**495,274**	**145,820**	**1,851,926**	**483,906**	**326,671**	**-**	**3,432,492**
CARRYING VALUE								
As of December 31, 2014	**5,698,070**	**185,884**	**59,000**	**610,206**	**156,758**	**584,785**	**2,704**	**7,297,407**
As of December 31, 2013	5,626,000	171,611	88,370	713,775	163,068	591,680	2,654	7,357,158
As of January1, 2013	3,592,727	151,262	153,894	652,254	105,017	222,026	2,521	4,879,701

Revaluation of assets

The buildings and land owned by the Group were revalued by an independent appraiser as of 31 December 2013 using comparative and income methods resulting in a revaluation of AMD 2,414,982 thousand. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 759,111 thousand as of 31 December 2014 (2013: AMD 593,103 thousand).

Fully depreciated items

As of 31 December 2014 fixed assets included fully depreciated assets in amount of AMD 1,884,464 thousand (2013: 1,762,302 thousand).

Fixed assets in the phase of installation

As of 31 December 2014 fixed assets included assets in the phase of installation in amount of AMD 125,292 thousand (2013: AMD 132,242 thousand).

Restrictions on title of fixed assets

As of 31 December 2014 and 2013, the Group does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2014 the Group had a contractual commitments totalling AMD 12,185 thousand (2013: AMD 47,719 thousand). The Group's Management has already allocated the necessary resources in respect of this commitment. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

22 Intangible assets

In thousand Armenian drams	Licenses	Computer software	Other	Total
COST				
As of January 1, 2013	350,826	36,276	73,334	460,436
Additions	100,798	6,238	17,932	124,968
As of December 31, 2013	**451,624**	**42,514**	**91,266**	**585,404**
Additions	**131,048**	**9,120**	**9,772**	**149,940**
As of December 31, 2014	**582,672**	**51,634**	**101,038**	**735,344**
ACCUMULATED AMORTISATION				
As of January 1, 2013	243,810	26,509	11,746	282,065
Amortisation charge	104,021	2,805	4,630	111,456
As of December 31, 2013	**347,831**	**29,314**	**16,376**	**393,521**
Amortisation charge	**77,073**	**3,300**	**8,160**	**88,533**
As of December 31, 2014	**424,904**	**32,614**	**24,536**	**482,054**
CARRYING VALUE				
As of December 31, 2014	**157,768**	**19,020**	**76,502**	**253,290**
As of December 31, 2013	103,793	13,200	74,890	191,883
As of January1, 2013	107,016	9,767	61,588	178,371

Fully amortized items

As of 31 December 2014 intangible assets included fully amortized assets in amount of AMD 296,502 thousand (2013: AMD 243,578 thousand).

As of 31 December 2014 and 2013, the Group does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2014 the Group had no contractual commitments (2013: AMD 5,056 thousand).

23 Repossessed assets

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

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Property	**1,898,184**	656,354
Vehicles	**15,000**	-
Other	**416,317**	355,660
Total	**2,329,501**	1,012,014

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

24 Other assets

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Prepayments and other debtors	**317,135**	446,136
Receivables on cash transfers	**46,730**	27,926
Total other financial assets	**363,865**	474,062
Less allowance for impairment of financial assets	**(48,317)**	(80,847)
Total net other financial assets	**315,548**	393,215
Unamortized insurance premium	**40,625**	59,778
Settlements with employees	**2,057**	3,505
Prepayments to suppliers	**76,720**	273,136
Other prepaid taxes	**53,743**	8,454
Precious metals	**235,226**	52,462
Materials	**182,973**	223,452
Other	**54,563**	1,866
Total non-financial assets	**645,907**	622,653
Total other assets	**961,455**	1,015,868

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

In thousand Armenian drams	**Total**
As of January 1, 2013	74,055
Charge for the year	6,388
Amounts written off	(39,899)
Recoveries	40,303
As of December 31, 2013	**80,847**
Charge for the year	**69,800**
Amounts written off	**(102,330)**
As of December 31, 2014	**48,317**

25 Subordinated debt

In thousand Armenian drams	2014	2013
Subordinated debt from CBA	**1,185,553**	1,164,623
Subordinated debt provided by legal entity	**7,087,003**	6,225,413
	8,272,556	7,390,036

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

Subordinated debt from legal entity is due to one counterparty, issued in USD, with average interest rate of 6.2 % per annum (2013: 6.86%) with contractual maturityfrom January 2017 to June 2018 (See note 36).

Subordinated debt from RA CB is thousand with 7.5% annual interest rate maturing in 2015.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2013: nil).

26 Amounts due to financial institutions

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Obligation due to CBA	**3,718,236**	2,878,619
Repurchase agreements with CBA	**6,507,102**	-
Correspondent accounts of other banks	**204,385**	146,835
Current accounts of other financial institutions	**757,941**	1,861,601
Loans from banks	**1,425,783**	-
Deposits from other financial institutions	**3,331,515**	5,625,746
Loans from other financial institutions	**2,972,022**	2,100,711
Loans from international financial organizations	**2,492,124**	2,212,246
Other amounts	**57,554**	4,711
Total amounts due to other financial institutions	**21,466,662**	14,830,469

As of 31 December 2014 obligations due to CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes (2013: also).

Loans from international financial organizations include loans from European Group for Reconstruction and Development, European Fund For Southeast Europe.

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

As of 31 December 2014 the effective interest rates on amounts due to the financial institutions ranged from 11.06 to 13.08% for borrowings in AMD (2013: 5.64 to 13.08%) and from 2.94 to 7.23% for borrowings in USD, EUR and other freely convertible currencies (2013: from 4.07 to 7.98%).

The Group did not have any defaults of principal, interest or other breaches with respect to its borrowings during the year (2013: nil).

27 Amounts due to customers

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Government of the RA		
Received loans	**185,234**	639,484
	185,234	639,484
Corporate customers		
Current/Settlement accounts	**19,702,317**	12,957,810
Time deposits	**19,685,138**	18,918,699
	39,387,455	31,876,509
Retail customers		
Current/Settlement accounts	**11,584,161**	9,899,118
Time deposits	**41,278,696**	35,663,790
	52,862,857	45,562,908
Total amounts due to customers	**92,435,546**	78,078,901

Customer deposits carry fixed rates.

As of 31 December 2014 included in payables to Government are loans in the amount of AMD 158,214 thousand (2013: AMD 429,945 thousand) attracted under the World Bank PIU on "Agriculture Finance Support Facility" and "Agricultural Reform support project") and the loans received within the scope of "Small and Medium business loan project" of German-Armenian fund in the amount of AMD 27,020 thousand (2013: AMD 188,976 thousand).

As of 31 December 2014 included in amounts due to customers are deposits amounting to AMD 9,402,378 thousand (2013: AMD 7,726,550 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates the carrying amount.

As of 31 December 2014 the aggregate balance of top ten customers of the Bank (including related parties, see Note 33) amounts to AMD 44,385,328 thousand (2013: AMD 37,015,768 thousand) or 44.18% of total customer accounts (2013: 44.18%). The amount of top ten customers does not include amounts due to RA Government.

As of 31 December 2014 the effective interest rates on amounts due to customers ranged from 4.98 to 17.22 % for amounts attracted in AMD (2013: 4.06 to 17.22%) and from 0.48 to 12 % for amounts attracted in USD, EUR and other freely convertible currencies (2013: from 0.25 to 12.01 %).

The Group has not had any defaults of principal, interest or other breaches with respect to its borrowings during the year (2013: nil).

28 Derivative financial instruments

In thousand Armenian drams	**2014**			2013		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – foreign currency	**3,251,100**	**-**	**180,645**	-	-	-
				-	-	-
Total derivative financial instruments and other trading liabilities	**3,251,100**	**-**	**180,645**	-	-	-

29 Financial liabilities held for trading

In thousand Armenian drams	**2014**	2013
Securities received from other institutions	**786,549**	-
Total financial liabilities held for trading	**786,549**	-

As at 31 December 2014 out of total accepted securities of AMD 873,674 thousand securities totaling to AMD 786,549 thousand (2013: nil) were repledged or lent to third parties for periods not exceeding three months from the transfer (See note 17).

30 Other liabilities

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Accounts payables	**165,251**	171,082
Due to personnel	**150,663**	147,792
Total other financial liabilities	**315,914**	318,874
Other provision (note 32)	**-**	18,392
Tax payable, other than income tax	**147,278**	117,543
Revenues of future periods	**4,644**	4,118
Grants related to assets	**33,278**	35,700
Other	**1,736**	3,155
Total other non financial liabilities	**186,936**	178,908
Total other liabilities	**502,850**	497,782

Grants related to assets

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
At January 1	**35,700**	38,122
Recognition of income (Note 10)	**(2,422)**	(2,422)
As of December 31	**33,278**	35,700

31 Equity

As of 31 December 2014 the Bank's registered and paid-in share capital was AMD 7,002,033 thousand (2013: AMD 4,860,033 thousand).

In accordance with the Bank's statues, the share capital consists of 23,340 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each.

The respective shareholdings as of 31 December 2014 and 31 December 2013 may be specified as follows:

	2014		2013	
In thousand Armenian drams	**Paid-in share capital**	**% of total paid-in capital**	Paid-in share capital	% of total paid-in capital
Advanced Global Investments LLC	**6,651,900**	**95**	4,617,000	95
Advanced Global Investments LLC (preference shares)	**33**	**-**	33	-
Saint Apostolic Church of Armenia	**350,100**	**5**	243,000	5
	7,002,033	**100**	4,860,033	100

As of 31 December 2014, the Bank did not repurchase any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

The preference shareholders are entitled to receive annual dividends amounting 20% of the nominal value of the shares they own if decision on dividend payment is made by authorized body.

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 50% of the Bank's share capital reported in statutory books.

32 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Undrawn loan commitments	**5,449,216**	5,409,809
Letters of credit	**466,572**	139,868
Guarantees	**1,615,421**	1,839,222
	7,531,209	7,388,899
Reserves against credit related commitments	**-**	(18,392)
Total commitments and contingent liabilities	**7,531,209**	7,370,507

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

The movement in other provisions was as follows:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
As of January 1	**18,392**	9,712
Charge/(reversal) (note 11)	**(18,392)**	8,680
As of December 31	**-**	18,392

Operating lease commitments – Group as a lessee

In the normal course of business the Group enters into other lease agreements for buildings and premises.

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

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Not later than 1 year	**429,956**	407,436
1 - 5 years	**1,400,221**	1,202,536
Later than 5 years	**752,111**	631,397
Total operating lease commitments	**2,582,288**	2,241,369

Capital commitments

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

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as at 31 December 2014 the Group possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting from 2005 the Bank is a member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

33 Transactions with related parties

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

The ultimate controlling party of the Group is Argentinean businessman E. Eurnekian.

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	As of December 31, 2014		As of December 31, 2013	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	**3,913,756**	**216,956**	540,684	191,845
Loans issued during the year	**3,607,362**	**565,533**	7,910,722	374,764
Loan repayments during the year	**(3,338,034)**	**(551,639)**	(4,537,650)	(349,653)
Loans outstanding at December 31, gross	**4,183,084**	**230,850**	3,913,756	216,956
Less: allowance for loan impairment	**(41,831)**	**(2,308)**	(40,801)	(2,189)
Loans outstanding as of December 31	**4,141,253**	**228,542**	3,872,955	214,767
Amounts due to customers				
Deposits at January 1	**15,251,822**	**108,463**	31,488,237	118,372
Deposits received during the year	**618,303,845**	**1,657,822**	1,039,117,016	539,165
Deposits repaid during the year	**(613,123,222)**	**(1,619,029)**	(1,055,353,431)	(549,074)
Deposits as of December 31	**20,432,445**	**147,256**	15,251,822	108,463
Amounts due to customers -Subordinated debt				
Subordinated debt at January 1	**6,225,413**	**-**	2,527,417	-
Subordinated debt received during the year	**2,495,270**	**-**	3,697,996	-
Subordinated debt repaid during the year	**(1,633,680)**	**-**	-	-
Subordinated debt as of December 31	**7,087,003**	**-**	6,225,413	-
Commitments and guarantees issued	**-**	**-**	102,314	-
Statement of profit or loss and other comprehensive income				
Interest income	**366,698**	**17,434**	193,987	19,254
Commission income	**20,322**	**415**	19,809	261
Other income	**85,519**	**471**	121,182	676
Interest expense	**(1,400,256)**	**(6,632)**	(1,087,247)	(6,689)
Impairment charge	**(1,030)**	**(119)**	(35,394)	(271)
Advisory expenses	**-**	**-**	(3,651)	(33,552)
Lease payments	**(58,596)**	**-**	(72,407)	-
Other operating expenses	**(7,542)**	**(2,051)**	(5,841)	(5,127)

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 year to 20 years (2013: from 1 year to 14 years) and have interest rates of 5-24% (2013: 8-24%). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

During 2014 no repossessed asset was sold to a related party (2013: AMD 1,628,420 thousand).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2014**	2013
Salaries and other short-term benefits	**368,062**	307,636
Total key management compensation	**368,062**	307,636

34 Fair value measurement

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

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

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

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

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

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

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

34.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2014				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	27,841,421	-	27,841,421	27,841,421
Amounts due from other financial institutions	-	7,412,250	-	7,412,250	7,412,250
Loans and advances to customers	-	92,888,015	-	92,888,015	92,888,015
Other financial assets	-	315,548	-	315,548	315,548
FINANCIAL LIABILITIES					
Subordinated debt	-	8,272,556	-	8,272,556	8,272,556
Amounts due to financial institutions	-	21,466,662	-	21,466,662	21,466,662
Amounts due to customers	-	92,435,546	-	92,435,546	92,435,546
Other financial liabilities	-	315,914	-	315,914	315,914

In thousand Armenian drams	As of 31 December 2013				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	-	21,103,554	-	21,103,554	21,103,554
Amounts due from other financial institutions	-	2,884,009	-	2,884,009	2,884,009
Loans and advances to customers	-	79,958,455	-	79,958,455	79,958,455
Other financial assets	-	393,215	-	393,215	393,215
FINANCIAL LIABILITIES					
Subordinated debt	-	7,390,036	-	7,390,036	7,390,036
Amounts due to financial institutions	-	14,830,469	-	14,830,469	14,830,469
Amounts due to customers	-	78,078,901	-	78,078,901	78,078,901
Other financial liabilities	-	318,874	-	318,874	318,874

Amounts due from and to other financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5 % to 24% per annum (2013: 5% to 24% per annum).

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

Due to customers

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

34.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments available for sale	-	1,885,325	-	1,885,325
Securities pledged under repurchase agreements	-	6,707,452	-	6,707,452
Total	-	8,592,777	-	8,592,777
FINANCIAL LIABILITIES				
Derivative liabilities	-	180,645	-	180,645
Trading liabilities	-	786,549	-	786,549
Total	-	967,194	-	967,194
NET FAIR VALUE	-	7,625,583	-	7,625,583

In thousand Armenian drams	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Trading securities	-	268,904	-	268,904
Investments available for sale	-	7,486,616	-	7,486,616
Total	-	7,755,520	-	7,755,520
NET FAIR VALUE	-	7,755,520	-	7,755,520

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

Unquoted RA equity securities

The fair value of Bank’s investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 19 for further information about this equity investment.

34.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Buildings	-	-	2,672,811	2,672,811
Land	-	-	3,154,154	3,154,154
Total	-	-	5,826,965	5,826,965
NET FAIR VALUE	-	-	5,826,965	5,826,965

In thousand Armenian drams	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Buildings	-	-	2,471,846	2,471,846
Land	-	-	3,154,154	3,154,154
Total	-	-	5,626,000	5,626,000
NET FAIR VALUE	-	-	5,626,000	5,626,000

Fair value measurements in Level 3

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

In thousand Armenian drams	**Land and buildings**	**Total**
NON FINANCIAL ASSETS		
Balance as at 1 January 2014	**5,626,000**	**5,626,000**
Purchases	**200,965**	**200,965**
Balance as at 31 December, 2014	**5,826,965**	**5,826,965**
NET FAIR VALUE	**5,826,965**	**5,826,965**

In thousand Armenian drams	Land and buildings	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2013	4,377,710	4,377,710
Purchases	25,217	25,217
Losses recognised in profit or loss	(10,471)	(10,471)
Gains recognised in other comprehensive income	2,414,982	2,414,982
Revaluation adjustment	(1,181,438)	(1,181,438)
Balance as at 31 December, 2013	5,626,000	5,626,000
NET FAIR VALUE	5,626,000	5,626,000

Fair value of the Group's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed at each reporting date.

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

The land and buildings were revalued on 31 December 2013. The buildings were previously revalued in 31 December 2010.
The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

35 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams					**As of December 31, 2014**
			Amounts offset		**Amounts not offset**
In thousand Armenian drams	**Gross financial assets/ liabilities**	**Gross financial assets/ liabilities offset**	**Net amounts presented**	**Financial instruments not recognized in the statement of financial position**	**Net**
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 17)	**842,390**	**-**	**842,390**	**(873,674)**	**(31,284)**
Reverse repurchase agreements (Note 26)	**6,507,102**	**-**	**6,507,102**	**(6,707,452)**	**(200,350)**

In thousand Armenian drams					As of December 31, 2013
			Amounts offset		Amounts not offset
In thousand Armenian drams	Gross financial assets/ liabilities	Gross financial assets/ liabilities offset	Net amounts presented	Financial instruments not recognized in the statement of financial position	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 17)	1,040,365	-	1,040,365	(1,042,306)	(1,941)

36 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 37.3 for the Group's contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2014							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash and cash equivalents	**27,841,421**	**-**	**-**	***27,841,421***	**-**	**-**	***-***	**27,841,421**
Amounts due from other financial institutions	**1,851,165**	**1,166,819**	**3,172,417**	***6,190,401***	**109,424**	**1,112,425**	***1,221,849***	**7,412,250**
Loans and advances to customers	**5,801,943**	**5,619,742**	**26,014,800**	***37,436,485***	**25,119,835**	**30,331,695**	***55,451,530***	**92,888,015**
Investments available for sale	**-**	**442,007**	**599,273**	***1,041,280***	**97,130**	**804,708**	***901,838***	**1,943,118**
Securities pledged under repurchase agreements	**-**	**-**	**186,572**	***186,572***	**6,520,880**	**-**	***6,520,880***	**6,707,452**
Other financial assets	**315,548**	**-**	**-**	***315,548***	**-**	**-**	***-***	**315,548**
	35,810,077	**7,228,568**	**29,973,062**	***73,011,707***	**31,847,269**	**32,248,828**	***64,096,097***	**137,107,804**
LIABILITIES								
Subordinated debt	**4,055**	**-**	**1,160,700**	***1,164,755***	**7,107,801**	**-**	***7,107,801***	**8,272,556**
Amounts due to financial institutions	**8,662,976**	**2,709,156**	**2,449,617**	***13,821,749***	**6,609,213**	**1,035,700**	***7,644,913***	**21,466,662**
Amounts due to customers	**40,218,575**	**9,517,973**	**38,280,332**	***88,016,880***	**4,315,761**	**102,905**	***4,418,666***	**92,435,546**
Derivative liabilities	**180,645**	**-**	**-**	***180,645***	**-**	**-**	***-***	**180,645**
Trading liability	**826**	**-**	**785,723**	***786,549***	**-**	**-**	***-***	**786,549**
Other liabilities	**315,914**	**-**	**-**	***315,914***	**-**	**-**	***-***	**315,914**
	49,382,991	**12,227,129**	**42,676,372**	***104,286,492***	**18,032,775**	**1,138,605**	***19,171,380***	**123,457,872**
Net position	**(13,572,914)**	**(4,998,561)**	**(12,703,310)**	***(31,274,785)***	**13,814,494**	**31,110,223**	***44,924,717***	**13,649,932**
Accumulated gap	**(13,572,914)**	**(18,571,475)**	**(31,274,785)**		**(17,460,291)**	**13,649,932**		

In thousand Armenian drams	As of December 31, 2013							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash and cash equivalents	21,103,554	-	-	*21,103,554*	-	-	-	21,103,554
Trading securities	-	-	657	*657*	74,623	193,624	*268,247*	268,904
Amounts due from other financial institutions	120,890	1,514,878	57,051	*1,692,819*	344,132	847,058	*1,191,190*	2,884,009
Loans and advances to customers	5,162,212	4,322,407	21,968,498	*31,453,117*	23,397,932	25,107,406	*48,505,338*	79,958,455
Investments available for sale	9,743	14,814	428,707	*453,264*	3,825,431	3,265,714	*7,091,145*	7,544,409
Other financial assets	393,215	-	-	*393,215*	-	-	-	393,215
	26,789,614	5,852,099	22,454,913	*55,096,626*	27,642,118	29,413,802	*57,055,920*	112,152,546
LIABILITIES								
Subordinated debt	3,923	-	-	*3,923*	7,386,113	-	*7,386,113*	7,390,036
Amounts due to financial institutions	1,875,678	1,056,839	6,021,095	*8,953,612*	5,041,551	835,306	*5,876,857*	14,830,469
Amounts due to customers	28,622,837	8,594,001	35,559,205	*72,776,043*	5,218,617	84,241	*5,302,858*	78,078,901
Other liabilities	318,874	-	-	*318,874*	-	-	-	318,874
	30,821,312	9,650,840	41,580,300	*82,052,452*	17,646,281	919,547	*18,565,828*	100,618,280
Net position	(4,031,698)	(3,798,741)	(19,125,387)	*(26,955,826)*	9,995,837	28,494,255	*38,490,092*	11,534,266
Accumulated gap	(4,031,698)	(7,830,439)	(26,955,826)		(16,959,989)	11,534,266		

37 Risk management

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

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Group and is designed to improve the financial position and the reputation of the Group.

The aim of the risk management process is the assistance to the management of the Group in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Group and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Group's authorized body. The identification, measurement, supervision and monitoring of the Group's risks are ongoing and regular processes. The risk analysis is an integral part of the Group's strategic planning, as well as the evaluation of investment programs. The Group's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Group's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the

Group, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

Risk management structure
The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Bank's Board
The Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction
The Bank's Executive Board implements the following for the purpose of risk management:
- Approval of complex measures, in agreement with the Board, based on the Bank's risk management, associated with the Bank's profitability in the critical situations, as well as operating, strategic, reputational and legal risks.
- Determining prohibitions for several transactions,
- Determining limits for transactions without collateral in inter-bank markets,
- Determining internal norms for banking risks regulation and supervision.

The Executive Board is responsible for the management of the Bank's assets and liabilities, as well as the overall financial system. The Bank's Executive Board is also responsible for the Bank's liquidity financial risks. The Executive Board is designed to fulfill the functions of the Bank's Assets and Liabilities Management Committee.

Risk management division
The main functions of the risk management division are:

- Elaboration and implementation of active mechanisms and processes for risk management in the Bank, as well as monitoring over their implementation,
- Analysis of the risk level of loans issued by the Bank and the monitoring over the lending process in the framework of program loans,
- Monitoring of issued loans, identification of issues related to them and reporting,
- Supervision over the evaluation of pledged property and periodical revaluations of the pledged property.
- Organization of the insurance process of the Bank's property,
- Management of the doubtful loans portfolio.

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

Risk measurement and reporting systems
Depending upon various factors, the Bank divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors, price and competition risks.

Internal risks of the Bank are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, capital decrease, staff and money laundering risks.

The country risk is managed by the Bank using the rating of international rating agencies (Moody’s, S&P, Fitch), granted to international banks and organizations, as well as the Berry index, if necessary, which is a widely accepted country risk measure. The risk management division monitors the rating of internal bank counterparties of the Bank and quarterly presents to the Bank’s Executive Board approval, the limits for each bank.

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets’ structural, volume and price indicators’ dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile etc.

The management of competition risk is implemented by the business divisions and marketing department, by periodically comparing the range of services and conditions provided by the Bank and its competitors.

The interest rate risk is managed by the Risk Management Division of the Bank by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Bank’s Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Bank’s Risk management division presents monthly analysis of the Bank’s expected repayments, amounts to be lent and the positions to the Bank’s Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Bank, limits of amounts attracted by the Bank, their types or gross interest expenses, limits on concentrations of the financial sources used by the Bank for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Bank’s related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Bank’s assets and liabilities , the ways of coordinating the Bank’s other divisions activities, who can influence the Bank’s liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Bank’s executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.) The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti money laundering legislation and Bank's internal legal acts.

Excessive risk concentrations

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

For avoiding the excessive risk concentrations, the Bank's policy and processes included special principles aimed at maintaining diversified assets types, loan and securities portfolios.

37.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk is managed in accordance with the Bank's credit policy and the internal legal acts regulating the sphere. The risk management division implements daily monitoring of the loan portfolio, calculation of dynamics based on the structured series and analysis of the quality of loan portfolio by products and branches, which is used for forecasting the qualitative indicators of the loan portfolio. The risk management division also conducts monitoring of different loan types in accordance with approved procedures, and monitors also other loans if it is necessary in case of worsening of the borrower's creditability. The loans issued by the Bank are also approved by the risk management division in accordance with the requirements of internal legal acts for reducing the credit risk. The credit risk management and control are centralised in Risk Management Division and reported to the Executive Board regularly.

As of December 31, 2014 and 2013 the carrying amounts of the Group's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

37.1.1 Risk concentrations

Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31 2014 and 31 December 2013.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**25,393,181**	**1,500,697**	**947,543**	**27,841,421**
Amounts due from other financial institutions	**6,395,012**	**876,929**	**140,309**	**7,412,250**
Loans and advances to customers	**89,361,533**	**23,963**	**3,502,519**	**92,888,015**
Investments available for sale	**1,426,298**	**-**	**516,820**	**1,943,118**
Securities pledged under repurchase agreements	**6,707,452**	**-**	**-**	**6,707,452**
Other financial assets	**135,768**	**152,559**	**27,221**	**315,548**
As of 31 December 2014	**129,419,244**	**2,554,148**	**5,134,412**	**137,107,804**
As of 31 December 2013	101,193,366	4,720,139	6,239,041	112,152,546

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

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of December 31 2014 and 31 December 2013.

In thousand Armenian drams	**Financial institu-tions**	**Manufac-turing**	**Agricul-ture**	**Trading**	**Constru-ction**	**State sector**	**Consumer sector (mortgage)**	**Services**	**Other**	**Total**
Cash and cash equivalents	**27,841,421**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,841,421**
Amounts due from other financial institutions	**7,412,250**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,412,250**
Loans and advances to customers	**-**	**3,730,521**	**2,505,602**	**10,841,126**	**8,787,154**	**-**	**49,919,351**	**11,943,312**	**5,160,949**	**92,888,015**
Investments available for sale	**895,183**	**-**	**-**	**-**	**-**	**1,047,935**	**-**	**-**	**-**	**1,943,118**
Securities pledged under repurchase	**-**	**-**	**-**	**-**	**-**	**6,707,452**	**-**	**-**	**-**	**6,707,452**
Other financial assets	**39,017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**276,531**	**315,548**
As of 31 December 2014	**36,187,871**	**3,730,521**	**2,505,602**	**10,841,126**	**8,787,154**	**7,755,387**	**49,919,351**	**11,943,312**	**5,437,480**	**137,107,804**
As of 31 December 2013	24,468,676	5,801,087	1,911,052	8,098,992	8,216,638	7,203,789	42,975,248	8,673,030	4,804,034	112,152,546

37.1.2 Risk limit control and mitigation policies

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

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

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

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.
Some other specific control and mitigation measures are outlined below.

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

- Mortgages over residential properties;
- Charges over business assets such as premises, equipment, inventory and vehicles.
- Gold and cash

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally no collaterals are required for provision of loans and advances to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of gross loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans collateralized by real estate	**55,692,182**	29,077,097
Loans collateralized by gold	**10,092,218**	9,219,011
Loans collateralized by guarantees of enterprises	**4,006,529**	24,859,710
Loans collateralized by vehicles	**4,353,145**	3,545,354
Loans collateralized by cash	**6,511,505**	6,055,746
Loans collateralized by inventories	**2,309,944**	1,478,819
Loans collateralized by equipment	**633,732**	300,078
Other collateral	**8,112,833**	3,862,398
Unsecured loans	**5,653,195**	4,817,760
Total loans and advances to customers (gross)	**97,365,283**	83,215,973

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

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

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

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

37.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group estimates impairment for loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified approaching conservatively. The Group addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

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

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

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**2014**	2013
	%	%
Loans and advances to customers		
Manufacturing	**0.2**	0.2
Agriculture	**-**	0.7
Construction	**-**	1.3
Transport and communication	**0.4**	1.1
Trading	**-**	0.4
Public food and services	**-**	2.3
Consumer	**0.7**	0.4
Mortgage	**0.1**	1.1
Other sectors	**-**	0.2

As of December 31, 2014 and 2013 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not individually impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams				**As of December 31, 2014**	
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**10,867**	**4,646**	**-**	**4,476**	**19,989**
Agriculture	**29,947**	**21,358**	**7,857**	**41,707**	**100,869**
Construction	**8,219**	**-**	**-**	**287**	**8,506**
Trade	**19,822**	**23,820**	**4,975**	**75,270**	**123,887**
Consumer	**276,218**	**152,475**	**134,395**	**342,436**	**905,524**
Mortgage	**199,203**	**109,857**	**4,446**	**603,159**	**916,665**
Other sectors	**30,446**	**145,182**	**-**	**35,751**	**211,379**
Total	574,722	457,338	151,673	1,103,086	2,286,819

In thousand Armenian drams				As of December 31, 2013	
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	-	-	6,164	14,139	20,303
Agriculture	3,208	-	6,887	21,215	31,310
Construction	519	-	-	-	519
Trade	13,019	-	-	41,494	54,513
Transport and communication	10,419	-	-	-	10,419
Consumer	190,443	33,604	41,792	62,640	328,479
Mortgage	49,214	10,689	-	54,764	114,667
Other sectors	-	-	-	33,660	33,660
Total	266,822	44,293	54,843	227,912	593,870

37.2 Market risk

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

37.2.1 Market risk – Trading

The Bank uses Basel II interest rate measurement methods and approaches to measure the risk of its securities held for trading. The method defines interest rate risk as the sum of specific and general interest rate risks.

To measure the interest rate risk the net positions in debt securities are calculated against the groups based on the following principles. To be included in the same group the securities must meet all of the following criteria:

- be issued by the same entity,
- expressed in the same currency,
- bear the same interest rate, or at maximum having a difference in interest rates of 0.2 interest points.

Measurement of specific interest rate risk

To measure the specific interest rate risk the positions of debt securities are calculated first. After which the gross position in debt securities is measured. In calculation of the gross position the debt securities are weighted according to the following classes:

- state debt securities
- reliable debt securities
- other debt securities

Measurement of general interest rate risk

To measure the general interest rate risk the positions in debt securities are calculated first as well. The gross net position in net securities is calculated as the difference between the sum of long positions in debt securities and sum of short positions in debt securities (in absolute terms). After the positions in debt securities are calculated the long or short positions debt securities are divided and weighted according to their remaining maturity. The minimal position in debt securities for each maturity band is defined as the minimal amount of the sum of all long and short positions (in absolute terms). Depending on the maturity all securities are divided into appropriate zones.

The general interest rate risk for a given day is the sum of the following:

- 10% of minimal position of each maturity band
- 40% of minimal position of the first zone
- 30% of minimal position of the second zone
- 30% of minimal position of the third zone
- 40% of minimal positions between the first and second zones
- 40% of minimal positions between the second and third zones
- 150% of minimal positions between the first and third zones
- 100% of the gross net position of debt securities.

On the days when there were no changes in the Bank's statement of financial position (including non-working days) the daily data is based on the previous day's data.

The Banks' exposure to interest rate risk on its' trading portfolio is presented below:

In thousand Armenian drams	Specific risk	General risk	Total risk on trading portfolio
As of December 31, 2014	**26,230**	**75,244**	**101,474**
As of December 31, 2013	18,991	28,644	47,635

37.2.2 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2014. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets at 31 December 2014 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

In thousand Armenian drams

							As of December 31, 2014
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**1%**	**-**	**10,479**	**-**	**972**	**-**	**11,451**
USD	**1%**	**-**	**-**		**-**	**-**	**-**
AMD	**-1%**	**-**	**(10,479)**	**-**	**(972)**	**-**	**(11,451)**
USD	**-1%**	**-**	**-**	**-**	**-**	**-**	**-**

In thousand Armenian drams As of December 31, 2013

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity				
			Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1%	2,148	1,473	2,540	38,254	27,684	69,951
USD	1%	541	-	1,019	-	-	1,019
AMD	-1%	(2,148)	(1,473)	(2,540)	(38,254)	(27,684)	(69,951)
USD	-1%	(541)	-	(1,019)	-	-	(1,019)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VaR methodologies. The currency rates are monitored daily, based on which at the end of each month the currency rates are forecasted. The Board of Directors has set limits on positions by currency.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams

	As of December 31, 2014			As of December 31, 2013		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**+5**	**92,352**	**117,567**	+5	3,763	3,010
USD	**-5**	**(92,352)**	**(117,567)**	-5	(3,763)	(3,010)
EUR	**+8**	**(16,905)**	**(16,905)**	+8	(690)	(552)
EUR	**-8**	**16,905**	**16,905**	-8	690	552

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	**20,195,659**	**6,653,958**	**991,804**	**27,841,421**
Amounts due from other financial institutions	**1,693,405**	**5,384,327**	**334,518**	**7,412,250**
Loans and advances to customers	**24,368,912**	**68,519,056**	**47**	**92,888,015**
Investments available for sale	**1,943,118**	**-**	**-**	**1,943,118**
Securities pledged under repurchase agreements	**6,707,452**	**-**	**-**	**6,707,452**
Other financial assets	**124,287**	**191,209**	**52**	**315,548**
	55,032,833	**80,748,550**	**1,326,421**	**137,107,804**
LIABILITIES				
Subordinated debt	**1,185,553**	**7,087,003**	**-**	**8,272,556**
Amounts due to financial institutions	**18,471,126**	**2,877,218**	**118,318**	**21,466,662**
Amounts due to customers	**22,914,657**	**68,999,864**	**521,025**	**92,435,546**
Trading liabilities	**786,549**	**-**	**-**	**786,549**
Derivative liabilities	**180,645**	**-**	**-**	**180,645**
Other liabilities	**288,303**	**27,559**	**52**	**315,914**
	43,826,833	**78,991,644**	**639,395**	**123,457,872**
Net position as of 31 December 2014	**11,206,000**	**1,756,906**	**687,026**	**13,649,932**
Commitments and contingent liabilities as of 31 December 2014	**3,399,129**	**4,091,377**	**40,703**	**7,531,209**
Total financial assets	44,276,694	66,322,808	1,553,044	112,152,546
Total financial liabilities	34,127,429	65,905,442	585,409	100,618,280
Net position as of 31 December 2013	10,149,265	417,366	967,635	11,534,266
Commitments and contingent liabilities as of 31 December 2013	3,570,369	3,800,138	-	7,370,507

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

37.3 Liquidity risk

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See note 15. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

As at 31 December, these ratios were as follows:	Not audited **2014, %**	2013, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**25.21**	30.03
N22- Current liquidity ratio(Highly liquid assets /liabilities on demand)	**89.96**	123.62

Analysis of financial liabilities by remaining contractual maturities.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. See note 36 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						As of December 31, 2014
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Subordinated debt	**4,055**	**-**	**1,160,750**	**8,496,448**	**-**	**9,661,253**
Amounts due to financial institutions	**11,363,101**	**2,741,219**	**2,604,265**	**8,335,615**	**1,563,800**	**26,608,000**
Amounts due to customers	**40,242,075**	**9,630,618**	**38,297,835**	**4,577,686**	**193,524**	**92,941,738**
Derivative liabilities	**180,645**	**-**	**-**	**-**	**-**	**180,645**
Trading liabilities	**826**	**-**	**785,723**	**-**	**-**	**786,549**
Other financial liabilities	**315,914**	**-**	**-**	**-**	**-**	**315,914**
Total undiscounted financial liabilities	**52,106,616**	**12,371,837**	**42,848,573**	**21,409,749**	**1,757,324**	**130,494,099**
Commitments and contingent liabilities	**5,504,905**	**381,076**	**1,213,636**	**373,844**	**57,748**	**7,531,209**
Total undiscounted financial liabilities as of December 31, 2013	31,063,047	9,834,208	43,692,498	21,702,080	1,411,706	107,703,539
Commitments and contingent liabilities as of December, 2013	160,652	327,013	1,477,625	1,367,384	4,037,833	7,370,507

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

37.4 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Bank. Operational risk is the risk of incompatibility of the Banks’ operations and procedures to the legislation in force or their breach, the lack of information of the Bank’s staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Bank. The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness.

The operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

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

The IT risks are managed in accordance with internal legal acts.
The risk mitigation mechanisms for the process are:

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

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

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

38 Capital adequacy

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

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

As of 31 December 2014 and 2013 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Tier 1 capital	**12,375,866**	10,769,570
Tier 2 capital	**4,993,381**	5,384,785
Total regulatory capital	**17,369,247**	16,154,355
Risk-weighted assets	**140,559,654**	113,843,235
Capital adequacy ratio	**12.36%**	14.19%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

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

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

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

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