Declaration of the Management of "Converse Bank" CJSC

We are responsible for drafting and approval of authentic and reliable financial statements on the Bank's financial position. Henceforth the Bank Management is in charge of:

- selection of accounting policy, its approval by the Board and consecutive implementation,
- substantiated appraisal and calculations,
- adherence to international accounting standards, in case of deviations from international accounting standards – notifications attached to financial statements for disclosure of deviations,
- accurate keeping of accounting records,
- drafting financial statements on the basis of the Bank's uninterrupted operation.

The Bank enforces an effective and reliable system of internal control in line with minimum standards as specified by the RA Central Bank;

The Bank applies a functional accounting system in line with the RA Legislation and international accounting standards, providing in time and valid information on the Bank's financial position;

The Bank takes appropriate actions to identify and prevent any frauds, inaccuracy or errors, and ensure security of assets in the Bank.

Executive Director Tigran Davtyan

Chief Accountant Gohar Harutyunyan

CONVERSE BANK CJSC
ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31.12.2015

Notification 1. "Legal framework and corporate management"

Main Activities

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

"Converse Bank" CJSC was founded in the Republic of Armenia as a closed joint-stock company. The Bank received Banking License #57 dated November 28, 1994 by the Central Bank of Republic of Armenia (hereinafter – the RA CB). The Bank functions in compliance with the RA Legislation, regulatory statements of the RA Central Bank and other departmental authorities as well as its own Charter and internal statements. The Bank offers a large variety of financial and bank services, and operates through its Head Office located in the capital, and its 33 branches are located in Yerevan and in different regions, and 1 branch is located in NKR:

Addresses of "Converse Bank" CJSC Head Office & Branches:

HEAD OFFICE	26/1 V. Sargsyan, Republic Square, Yerevan, 0010, RA Tel.: 51 12 11, 51 12 00
CENTRAL Branch	49 Komitas, Yerevan, 0051, RA Tel.: 28 10 15, 23 09 96
AVAN Branch	161/2 Khudyakov, Avan, Yerevan, RA Tel.: 61 44 72, 61 44 23
ARARATIAN Branch	15 Bagratunyats, Garegin Nzhdeh square, Yerevan, 0006, RA Tel.: 46 50 06, 46 50 07
ZVARTNOTS AIRPORT Branch	42 Zvartnots, Yerevan Tel.: 49 31 97
AVIATION Branch	42 Zvartnots, Yerevan Tel.: 52 07 06
NOR HAJN Branch	8 Charents, Nor Hachn, 2412, RA Tel.: (0224) 4 38 40, 4 38 30
VANADZOR Branch	1G Khorenatsi, Vanadzor, 2021, RA Tel.: (0322) 4 29 10, 4 12 58
GYUMRI Branch	4b G. Nzhdeh, Gyumri, 3106, RA Tel.: (0312) 4 20 95, 4 17 94
ARTASHAT Branch	117a Ogostosi 23, Artashat, 0701, RA Tel.: (0235) 2 24 99, 2 24 78

ARMAVIR Branch	46 Shahumyan, Armavir, RA Tel.: (0237) 6 22 73, 6 07 42, (374 10) 28 14 33
METSAMOR Branch	City Hall, ground floor, Metsamor, 0910, RA Tel.: (0237) 3 20 70, 28 18 33
CHARENTSAVAN Branch	21 Khanjyan, Charentsavan, 2501, RA Tel.: (0226) 4 15 97
HRAZDAN Branch	Microdistrict 104, ground floor, Hrazdan, 2302, RA Tel: (0223) 3 47 09
SEVAN Branch	153 Nairyan, Sevan, 1501, RA Tel.: (0261) 2 54 52
LORI Branch	54 G. Lousavorich, Vanadzor, 2021, RA Tel.: (0322) 4 21 18, 4 29 12
SHIRAK Branch	Shirak Airport, Gyumri, RA Tel.: (0312) 3 72 38, 4 20 95
ETCHMIADZIN Branch	10 Mashtots, Etchmiadzin, RA Tel.: (0231) 40005, 40009
ABOVYAN Branch	Constitution Square, Abovyan, RA Tel.: (0222) 33080
NOR NORK Branch	12/10 Gay Ave., Yerevan, 0056, RA Tel.: 644660
IJEVAN Branch	6/1 Valans, Ijevan, 4001, RA Tel.: (0263) 40844, 40899
KUMAYRI Branch	46a Khrimyan Hayrik, Gyumri, RA Tel.: (0312) 35695, 35615
MOSKOVYAN Branch	39/12 Mashtots, Yerevan, RA Tel.: 521526
SAYAT-NOVA Branch	19 Sayat-Nova Ave., Yerevan, 0001, RA Tel.: 546049, 546053, 546056, 546057
KILIKIA Branch	4/1 Kajaznuni, Yerevan, RA Tel.: 551359

POSTBANK 19 Branch	23 Baghramyan Avenue, Yerevan, RA Tel.: (37410) 514619
KAPAN Branch	1/2 Tumanyan, Kapan, RA Tel. (374 285) 20058
STEPANAKERT Branch	25/2 V. Sargsyan, Stepanakert Tel. (374 47) 975277
AVAN-1 Branch	On the right side of the Yerevan-Sevan roadway "Global Motors" auto salon, Kotayk
EREBOUNI Branch	11 Erebouni, Yerevan, RA Tel. (374 10) 430457
ZEITUN Branch	14/7 Rubinyants, Qanaqer-Zeitun district,Yerevan, RA Tel. (374 10) 614472
DAVITASHEN Branch	18/6 section,3rd district Davtashen, Yerevan, RA Tel. (374 10) 511 211
ASHTARAK Branch	1st Post Office, 1 Sisakyan str., Ashtarak city community, Aragatsotn region, RA Tel:(374 232) 36911, (374 232) 36922
DILIJAN Branch	Myasnikyan street, Dilijan city , Tavush region, RA Tel: (374 0268) 22386
KOTAYQ Branch	Build 5,Yerevan-Abovyan roadway, village Verin Ptghni,RA

Subsidiaries of the Bank

“Converse Collection” CJSC is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2000 and conducts its business under license number 52, granted by the RA Police**.**

Business environment of Armenia

The political and economical environments of Republic of Armenia undergo certain instability in the current stage of economic development. This may have impact on business activities of local enterprises. Consequently, any activities in the business environment of Armenia are connected with risks that are not typical for other markets. The present financial statements give the ongoing assessment of managers relating to possible impact of the current economic circumstances on the financial performance and operations of the Bank. Anyway, the condition of the business environment in the future may differ from the assessment of managers

Corporate Management:

1. Board structure & staff:

Board Chairman:	Armen Ter-Tachatyan,
Board Members:	Juan Pablo Gechidjian,
	Arsen Gamaghelyan,
	Juan Carlos Ozcoidi,
	Jose Luis Persico,
	Daniel Guillermo Simonutti
	Jorge Alberto Del Aguila

2. Structure & staff of the Management Board:

Management Board Chairman	Tigran Davtyan
Management Board Member	Gohar Harutyunyan
	Velikhan Muradyan
	Vahe Dalyan
	Sergey Shevchenko
	Arman Asatryan

3. Shareholders:
ADVANCED GLOBAL INVESTMENTS LLC – 95%
The Armenian Saint Apostolic Church represented by Mother See of Holy Etchmiadzin Catholicosate – 5%.

4. The Group Management is remunerated pursuant to employment agreements and the Staff Members List approved by the Group.

Notification 2. "Accounting Policy"

Performance basis

Declaration on adequacy

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

Measure basis

The financial statements have been prepared on the basis of the actual cost principle, for financial assets and liabilities recorded at their actual value and adjustable by the financial results, as well as for assets available for sale, except for those assets, the actual cost of which cannot be determined. Other financial assets and liabilities, as well as non-financial assets and liabilities are recorded with amortization or historical value.

Measure and submission currency

The national currency of the Republic of Armenia is the dram of RA. The management has specified AMD as the measure currency, since AMD reflects the economic essence of developments and circumstances that underlie the Group's activity. AMD is also the submission currency of these financial reports.
The financial information is stated in thousand drams.

Use of estimates and observations

In order to prepare these financial statements in accordance with the requirements of IFRS, the management has developed a number of estimates and assumptions related to presentation of assets and liabilities, as well as disclosure of conventional liabilities and assets. The actual results can be different from the estimates.

Accounting policy

The below specified accounting policy was applied for preparation of the financial statements. The accounting policy has been applied consistently.

Basis of consolidation

Subsidiaries, which are entities 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. Subsidiaries are 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 subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All subsidiaries have 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. Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Recognition of income and expenses

Income is recognized in case when it is likely that economic profits will flow to the Group and the received income can be measured reasonably. Expense is recognized when it is likely that economic profits will flow out of the Group and the expense can be measured reasonably.

Interest income and expense are recognized in the integral report on financial results, by means of application of the effective interest rate method. Interest income and expense comprise amortization of the difference between the discount, extra charge, or the original balance cost of the interest bearing instrument and the payable amount, calculated on the basis of the effective interest rate.

The discount interest and extra charge accrued to financial instruments recorded by their actual cost adjustable by the financial results are recognized in the financial results as net profit/loss from the financial instruments recorded by their actual cost reappraised on the basis of the financial results.

Loan disbursement, service and other fees, which constitute an integral part of the general profitability of the loan, are deferred together with other direct expenses and are amortized to the interest income within the estimated term of the financial instrument, by means of application of the effective interest rate method.

Other commission fees and other income and expense items are recognized when the relevant service is rendered.

Dividend income is recognized on the day of recording the dividend in the financial results.

Foreign currency transactions

Transactions with foreign currency are converted into AMD at the exchange rate set as of the transaction date. As of the accounting date, the monetary assets and liabilities in foreign currency are converted into AMD at the exchange rate specified for that day. Non-monetary assets and liabilities presented at their original cost and expressed in foreign currency are converted into the measure currency at the exchange rate specified for that day. The foreign currency differences deriving from the conversion are recognized in the integral report on financial results.

As at the end of quarter , the exchange rate was 483.75AMD = 1 USD (as of December 31, 2014 the rate was 474.97 AMD = 1 USD).

Taxation

In the line of profit, the profit tax is composed of current and deferred taxes.
The profit tax is recognized in the integral report on financial results, except for the part that refers to capital items directly recognized in the equity capital, in which case the profit tax is recognized in the equity capital.

The current tax is the estimated amount payable against the taxable profit of the year, calculated by means of application of those tax rates, which acted as of the accounting date and the adjustments made in the part of taxes paid during previous years.

Deferred taxes are calculated in accordance with the liabilities method of the report on financial situation, which takes into account all time differences between balance amounts of assets and liabilities recognized in the financial statements and amounts calculated for tax purposes.

Deferred tax assets are recognized only to the extent to which it is likely that taxable profit will be earned, against which temporary differences, unutilized tax losses and benefits can be used. Deferred tax assets are decreased to the extent to which it is not likely that the relevant tax profit will be earned.

The monetary funds and their equivalents

The Group considers as monetary funds and their equivalent the cash funds, the funds kept at the CB RA (except amounts deposited for the purpose of mutual settlements made through ArCa payment system) and accounts held with correspondent banks, which can be converted into cash within a short period of time and are not exposed to any considerable risk of cost changes.

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

Financial instruments

Classification

Financial assets are classified by the Group into the following categories: financial assets recorded at the actual cost and adjustable by the financial results, loans and receivables, financial assets available for sale. Such classification of investments is done at the time of purchase, based on the estimates made by the Bank management, taking into account the goals of purchase.

Financial assets and liabilities recorded at the actual cost and adjustable by the financial results are those, which:
- have been purchased or originated with the purpose of selling or purchase back in the near future,
- a part of the separate portfolio of financial instruments' managed together, in case of which there have been past cases of obtaining short-term profit,
- derivative financial instruments (except specified derivative financial instruments and effective hedging transactions), or
- at the time of initial recognition were recognized by the Group as assets and liabilities recorded at the actual cost and adjustable by the financial results.

The profit and losses that originate after the adjustment are recognized in the integral report on financial results.

The Group considers financial assets and liabilities as assets and liabilities recorded at the actual cost and adjustable by the financial results in case if:

- the assets or liabilities are managed and assessed by the actual cost principle,
- their definition as such excludes or considerably reduces the accounting discrepancy that would occur under other circumstances, or
- the asset or liability contains a derivative, which considerably changes those cash flows, which would otherwise arise under the agreement.

Commercial derivative instruments that imply potentially favorable conditions (positive actual cost), as well as purchased options, are represented as assets. Commercial derivative instruments that imply potentially unfavorable conditions (negative actual cost), as well as provided options, are represented as liabilities.

After the initial recognition, financial assets and liabilities recorded at the actual cost and adjustable by the financial results are not reclassified.

Disbursed loans and receivables are non-derivative financial assets with fixed or determinable payments, which do not have a quoted market price at the current market, except for those:

- which the Group intends to sell immediately or soon afterwards,
- which the Group, at the time of initial recognition, defines to be recorded at the actual cost and adjustable by the financial results,
- which the Group, at the time of initial recognition, defines as available for sale, or
- with regard to which the Group will not recover its investment completely through various reasons of loan aggravation.

Assets available for sale are those assets, which are intended for sale or are not classified as disbursed loans, receivables, or financial instruments measured by their actual cost.

Recognition

Financial assets and liabilities are recognized in the report on financial situation when the Group becomes a party to the contract on the financial instrument.

Measuring

The financial asset or liability is initially recognized at its actual cost (which is normally its initial cost) plus expenses related to the transaction, except for the expenses related to those transactions, which have been classified as financial instruments recorded at the actual cost and adjustable by the financial results.
After initial recognition, the financial assets, including derivative instruments considered as assets, are measured at their actual cost, without deduction of the expenses related to the transaction, which might occur through sale or alienation in some other manner, except for the following:

- disbursed loans and receivables, measured at their amortization cost by means of application of the effective interest rate method;
- investments kept till maturity measured at their amortization cost by means of application of the effective interest rate method, and
- investments in equity capital instruments, which do not have any quoted market price at the current market and are measured at their original cost.

After initial recognition, the majority of the financial liabilities are measured at their amortization cost, except those financial liabilities, which are specified as financial instruments measured at the actual cost, the profit and losses deriving from adjustment of which are recognized in the integral report on financial results, as well as those financial instruments, which originate when transfer of a financial asset measured at its actual cost does not comply with the criteria of de-recognizing. Extra charges and discount amounts, including the initial expenses related to the transaction, are included in the balance cost of the instrument and are amortized at the effective interest rate of the instrument.

Principles of measuring the actual cost

The actual cost of financial instruments is based on the market price quoted as of the accounting date, without deduction of the expenses related to the transaction. If no quoted market price is available, the actual cost of the instrument is determined by means of cost definition models or the techniques of discounted cash flows.

In case of application of the techniques of discounted cash flows, the estimated future cash flows are based on the best estimates made by the management, and the discount rate is the relevant market interest rate applicable towards this instrument under similar conditions, as of the accounting date. In case of application of cost definition models, the market data of the accounting date are used in the model.

The actual cost of derivative instruments circulating at stock exchange is estimated at the amount, which the Group will receive or pay as of the accounting date in case of termination of the agreement, taking into account the current market conditions and current solvency of the parties to the agreement.

Profit and loss deriving from further measuring

Profit or loss deriving from changes in the financial assets and liabilities are recognized in the following manner.

- profit or loss deriving from financial instruments recorded by their actual cost adjustable by the financial results are recognized in the financial results;
- profit or losses deriving from financial assets available from sale are recognized in other aggregate income (except for losses deriving from deterioration and profit and losses deriving from foreign currency differences) until de-recognizing of the asset, when the whole profit or loss previously recognized in other aggregate income is recognized in the financial results. The interest in line of the asset available for sale is recognized in the financial results, by means of application of the effective interest rate method.

Profit or losses deriving from financial assets recorded at their amortization cost are the integral report on financial results, when a financial asset or liability is de-recognized or depreciated, as well as through amortization.

De-recognizing

A financial asset is de-recognized, when the validity term of using the right to receive cash flows from the financial asset expires or when the Group transfers almost all risks and profit related to asset ownership. All those rights or obligations, which occurred or were retained at the time of transfer, are recognized separately as assets or liabilities. A financial liability is de-recognized when it is repaid, invalidated or expired.

The Group de-recognizes certain assets also in case when balances of non-collectible assets are written off.

Repo and reverse repo agreements

Securities sold through repo agreements are recorded as secured financial instruments, in case of which the securities remain recorded in the report on financial situation and the liability is included in the amounts payable under repo agreements. The difference between the repurchase prices is the interest expense, which is recognized in the financial results during the term of the repo agreement, by means of application of the effective interest rate method.

Securities purchased through repo agreements are recorded in the amounts receivable under repo agreements. The difference between the repurchase prices is the interest income, which is recognized in the financial results during the term of the repo agreement, by means of application of the effective interest rate method.

If the securities purchased through repo agreements are sold to a third party, the obligation to return the securities is recorded as a commercial liability and is measured at its actual cost

Fixed assets

Own assets
Fixed assets are presented at their original cost minus accumulated deterioration and losses from devaluation, except buildings reflected at the revaluated cost.
When an item of fixed assets is composed of different term large components of useful service, these components are recorded as separate items of fixed assets.

Leased assets
Such lease, under which almost all risks and profits related to the asset ownership are transferred to the Group, is a financial leasing. Equipment purchased through financial leasing is recorded at the minimum of the actual cost and the current cost of the minimal lease payments at the beginning of the lease, minus accumulated deterioration and losses from devaluation.

Reappraisal
The Group buildings are reappraised on regular basis. Regularity of reappraisal depends on the changes in the actual cost of reappraised buildings. When the balance cost of a building increases in the result of reappraisal, the increase is recognized directly in the equity capital. But when such increase covers the decrease resulted from the previous reappraisal and recognized in the integral report on financial results, it is recognized in the integral report on financial results. When the balance cost of a building decreases in the result of reappraisal, the decrease is recognized in the financial results. But when such decrease covers the increase resulted from the previous reappraisal and recognized in the equity capital of the same assets, it is recognized in the equity capital.

Depreciation

Depreciation is recognized in the integral report on financial results, by means of application of the linear method during the useful life of the fixed assets. Calculation of depreciation starts from the date of purchase of the fixed asset, and in case of in-house constructed assets – from the date of commissioning. No deterioration is calculated towards land. The estimated periods of useful life are as follows.

	Useful life (years)	Interest rate (%)
Buildings	20	5
Computers	1	100

	Useful life (years)	Interest rate (%)
Buildings	20	5
Transport means	5	20
Equipment	5	20
Other fixed assets	5	20

Capital expenditures on leased fixed assets are capitalized and amortized on linear basis at the shortest of the following two terms: lease term or useful life of the asset.

Intangible assets

Intangible assets purchased by the Group are presented at their original cost minus accumulated losses from amortization and depreciation.

Amortization is recognized in the integral report on financial results, by means of application of the linear method during the useful life of the intangible assets. The estimated periods of useful life are as follows:

	Useful life (years)	Interest rate (%)
Computer software and licenses	1-10	100-10

Deterioration

Financial assets recorded at amortization cost

Financial assets recorded at amortization cost comprise loans and other receivables ("loans and receivables"). The Group regularly revises the loans and receivables for the purpose of appraising depreciation. A loan or receivable is depreciated and depreciation losses are recognized only in case when there is an impartial testimony about depreciation resulting from one or more occasions after initial recognition, and this case (or cases) affects the estimated future flows of the loan funds, which can be measured reasonably.

The impartial testimony about depreciation might comprise non-fulfillment of obligations or delay of payments on the part of the borrower, violation of the loan agreement terms and conditions by the borrower, such revision of the terms and conditions of the loan, which the Group would not consider under other circumstances, evidence of bankruptcy of the borrower or issuer, abatement of the current market of securities, decrease of the collateral value, or other available data regarding the group of assets, such as impairment of solvency of the borrowers included in the group, or changes in the economic conditions related to non-fulfillment of obligations by the borrowers included in the group.

First of all, the Group assesses separately whether there is an impartial testimony about depreciation with regard to such loans and receivables, which are significant when considered separately, and by groups with regard to such loans and receivables, which are not significant when considered separately. If the Group concludes that there is no impartial testimony on a separately assessed loan or receivable, whether significant or not, such loan will be included in the group of loans and receivables with similar parameters and the Group will make a group appraisal for the purpose of revealing signs of depreciation. Those loans and receivables, for which depreciation assessment was made separately and against which depreciation losses were or still are recognized, will not be included in the group assessment of depreciation.

If there is impartial testimony on losses resulting from depreciation of a loan or receivable, the size of loss is measured by the difference between the balance cost of the loan or receivable and the current cost of the estimated future cash flows, including the amounts discounted from guarantees and collateral at the initial effective interest rate of the loan or receivable. Cash flows estimated under the agreement and losses based on the past experience, in the line of which adjustments were made on the basis of the available data that reflect the current economic conditions, are the basis for assessing the expected cash flows.

In certain cases, in order to assess the loss from depreciation in the line of the loan or receivables, the required information might be limited or not fully compliant with the present conditions. This can be in case when the borrower has financial difficulties and the Group does not possess sufficient data regarding similar borrowers. In such cases, the Group assesses the amount of loss from depreciation, based on its experience and assumptions.

Losses from depreciation in the line of loans or receivables are recognized in the financial results and are reversed only in case when further increase of the reimbursed amount can be objectively attributed to developments after recognition of the loss from depreciation.

In cases when it is impossible to collect the loan, it is written off at the expense of the depreciation provision. The Group writes off the loan balance, when the Group management decides that the loan is not subject to collection and all the necessary measures have been taken with regard to repayment of the loan.

Financial assets recorded at their original cost

The financial assets recorded at their original cost comprise non-quoted instruments of the equity capital included in the assets available for sale, which are not recorded at the actual cost, since the latter cannot be reasonably assessed. If there is an impartial testimony to evidence that such investments are depreciated, the loss from depreciation is the difference between the balance cost of the investment and the current cost of the future estimated cash flows discounted at the market interest rate of a similar financial asset.

Losses from depreciation of such investments are recognized in the financial assets and are not subject to reversion.

Non-financial assets

On each accounting date, other non-financial assets, except deferred taxes, are revised for the purpose of revealing signs of depreciation. The reimbursable amount of non-financial assets is determined as the actual cost minus the highest of the expenses from selling and the usage costs. When determining the usage cost, the estimated future cash flows are discounted, applying before taxation the provision, which reflects the current appraisal of the market of the time risk of money and the risk peculiar to the asset. In case of assets, which do not generate cash flows significantly independent of other assets, the reimbursable amount is determined for the money-yielding group, which comprises the particular asset. The loss from depreciation is recognized when the balance cost of the money-yielding unit exceeds its reimbursable amount.

The losses from depreciation of non-financial assets are recognized in the integral report on financial results, and are reversed only in case when the estimates applied for determination of the reimbursable amount have changed. The loss from depreciation is reversed only to the extent to which the balance cost of the asset does not exceed the balance cost, which would have been determined after deducting deterioration or amortization, if no loss from depreciation had been recognized.

Reconsidered loans

Revision of loans might result in extension of the loan maturity and establishment of new conditions of loan repayment. If the loan conditions are revised, the loan is no longer considered overdue. The managers constantly supervise the loans with revised conditions to make sure that all arrangements are observed and future payments will be made. The loans remain the subject of individual or group assessment of depreciation, by means of application of the initial effective interest rate of the loan.

Credit instruments

During its regular activity, the Group applies credit instruments, which comprise outstanding credit lines, letters of credit, and guarantees, and provides other types of lending security.

Financial guarantees are agreements that oblige the Group to make certain payments to reimburse those losses, which the guarantee owner would suffer, if the individual debtor had not been able to make payments within the term of the debt instrument.

A liability in the line of a financial guarantee is originally recognized at the actual cost, leaving out the expenses connected with the instrument, and afterwards it is measured by the higher of the two values: the originally recognized cost minus the accumulated amortization or the loss provision in the line of the guarantee. The loss provision in the line of financial guarantees and other credit instruments are recognized, when there is probability of loss and this loss cannot be reasonably measured.

Liabilities in the line of financial guarantees and provisions for other credit instruments are included in the structure of other liabilities.

Assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Grants

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

Reserves

Reserves are recognized in the report on the financial results when the Group has an actual or constructive obligation resulting from past experience and it is probable that outflow of economic profit will be required for repayment of this obligation. If the impact is significant, the provision is determined by discounting the future expected cash flows before taxation, at a rate that reflects the current market estimate of the temporal cost of money and, if applicable, the risks inherent to the obligation.

Share capital

Dividends

The Group's capability to announce and pay dividends is regulated by the relevant procedures specified by the legislation of the Republic of Armenia. Dividends on equities are reflected as allocation of outstanding dividends within the period of time, when they were announced.

Extra payment for shares

Any amount paid above the par value of shares is considered as extra payment for shares.

Offsetting

Financial assets and liabilities are offset by being reflected in the report on financial situation, if there is a legally fixed right to offset recognized amounts, as well as an intention to make the calculation by the net basis or sell the asset and simultaneously repay the liability.

Notification 6. « Interest and similar income »

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Interest and similar income	***3,326,367***	***13,458,001***	***3,348,212***	***12,605,148***
Loans and advances to customers	2,914,717	11,992,014	2,306,533	10,598,394
Available for sale	268,472	929,731	210,527	824,506
Amounts due from banks	139,774	491,704	165,188	420,476
Reverse repurchase agreements	0	38,071	47,358	134,685
Interest on impaired loans	0	0	589,990	589,990
Other interest incomes	3,404	6,481	28,616	37,097

Notification 6. "Interest and similar expense"

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Interest and similar expense	***(1,716,446)***	***(6,961,726)***	***(1,586,127)***	***(6,274,958)***

Amounts due to customers	(1,263,637)	(5,042,496)	(1,209,117)	(4,899,910)
Amounts due to credit institutions	(295,008)	(1,284,991)	(323,461)	(1,321,499)
Debt securities issued	-	-	-	-
Repurchase agreements	(157,801)	(634,239)	(53,549)	(53,549)
Other interest expense	-	-	-	-
Net interest income	**1,609,921**	**6,496,275**	**1,762,085**	**6,330,190**

Notification 7. "Net commission fees"

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Fee and commission income	**488,366**	**1,887,676**	**463,886**	**1,676,155**
Cash collection	41,244	133,278	61,027	206,355
Wire transfer fees	155,958	556,537	188,483	596,845
From Loans	24,593	96,567	14,435	57,738
Transaction with payment cards	204,024	838,569	196,542	752,315
Guarantees and letters of credit	9,921	42,903	1,520	4,446
Other fees and commissions	52,626	219,822	1,879	58,456
Fee and commission expense	**(178,675)**	**(656,310)**	**(142,577)**	**(536,449)**
Wire transfer fees	(21,710)	(84,925)	(22,391)	(79,254)
Cash operations	(37,609)	(100,463)	(21,742)	(70,965)
Plastic cards	(112,052)	(434,045)	(88,080)	(351,920)
Guarantees and letters of credit	(714)	(11,761)	-	-
Other fees paid	(6,590)	(25,116)	(10,364)	(34,310)
Net commission fees	**309,691**	**1,231,366**	**321,309**	**1,139,706**

Notification 8. "Net trading income"

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Net trading income	**323,580**	**696,282**	**1,271,039**	**1,877,305**
Gains less losses from trading in foreign currencies	287,259	1,080,235	490,849	1,128,306
Gains less losses from revaluation of foreign currencies	27,988	(399,832)	1,068,024	1,030,149
Gains less losses from foreign exchange translation of trading assets	350	(3,597)	(45,852)	(54,923)
Gains less losses from swap	(14,097)	(67,831)	(255,047)	(248,730)
Gains less losses from trading in trading assets	282	1,141	2,822	(305)
Gains less losses from trading in assets available for sale	1,109	45,838	(10)	8,270
Net gains from operations of percious metals	20,689	40,328	10,253	14,538

Notification 9. "Income from dividends and other operational income"

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Income from dividends	**1,075**	**4,133**	**834**	**2,810**
Other operational income	**234,818**	**900,075**	**230,332**	**595,989**
Income from sale of fixed assets	789	839	73,245	76,448
Fines and penalties received	193,123	728,931	106,418	327,452
Income from grant	604	2,422	604	2,422
Income from ceded loan	0	0	0	0
Other income	40,302	167,883	50,065	189,667

Notification 10. « Net provisions to reserves for possible losses of assets »

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Net provisions to reserves for possible losses of assets	**(629,554)**	**(2,183,667)**	**(1,790,442)**	**(1,697,589)**
Loans and advances to customers	(612,661)	(2,155,013)	(1,766,615)	(1,646,181)
Other assets	(16,893)	(28,654)	(40,686)	(69,800)
Other provisions	-	-	16,859	18,392

Notification 11,20,21. "Total administrative expenses".

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Personnel expenses	(833,346)	(3,137,072)	(651,937)	(2,977,136)
Depreciation of PPE	(176,625)	(669,766)	(151,803)	(670,801)
Amortization of intangibles	(38,945)	(127,891)	(54,775)	(88,533)
Repair and maintenance of tangible and intangible assets	(32,929)	(98,210)	(33,461)	(106,217)
Advertising and representation	(100,921)	(248,571)	(182,011)	(347,844)
Business trip	(6,483)	(18,484)	(9,149)	(19,910)
Communication	(30,529)	(125,030)	(32,023)	(124,872)
Operating lease expenses	(117,967)	(485,145)	(101,483)	(408,789)
Taxes, other than income tax	(6,042)	(28,653)	(5,805)	(20,899)
Consulting and professional services	(29,789)	(86,901)	(15,991)	(49,586)
Security	(48,476)	(192,454)	(47,655)	(176,122)
Loss on impairment of fixed assets	-	-	4,248	(600)
Loss on impairment of forclosed assets	(63,210)	(63,210)	(16,738)	(16,738)
Office supply	(18,010)	(48,792)	(5,196)	(46,181)
Incasation expenses	(5,371)	(21,400)	-	-
AS system expenses	(38,343)	(149,388)	(35,907)	(137,520)
Expenses related to ArCa	(39,858)	(121,223)	(39,818)	(109,632)
Insurance	(25,555)	(102,505)	(30,598)	(112,694)
Other expenses	(76,833)	(264,820)	(54,232)	(240,504)
Total other expenses	**(1,689,232)**	**(5,989,515)**	**(1,464,334)**	**(5,654,578)**

Average number of employees in the fourth quarter of 2015 year comprised 755 (against 728 of the fourth quarter of 2014) ; in the fourth quarter of 2015 the average monthly salary of one employee comprised AMD 346 thousand (against AMD 341 thousand of the fourth quarter of 2014).

Notification 12. « Other operational expenses»

	01.10.15-31.12.15	01.01.15-31.12.15	01.10.14-31.12.14	01.01.14-31.12.14
Penalties paid	(169)	(6,420)	(204)	(400)
Insurance of deposits	(30,028)	(112,924)	(25,639)	(97,128)
Other operational expenses	(34,332)	(104,596)	(52,940)	(128,110)
Total other operational expenses	**(64,529)**	**(223,940)**	**(78,783)**	**(225,638)**

Notification 13. « Income tax expense»

Income tax expense	**01.10.15-31.12.15**	**01.01.15-31.12.15**	**01.10.14-31.12.14**	**01.01.14-31.12.14**
Current tax	-	-	(75,318)	(338,922)
Adjustment of curent income tax of previous year	-	-	(18,310)	(18,310)
Deferred tax	(22,031)	(203,034)	256,518	51,538
Total	**(22,031)**	**(203,034)**	**162,890**	**(305,694)**

The profit tax rate in the Republic of Armenia comprises 20% (2014 - 20%). The deferred tax amount is calculate on account of the principal tax rate - 20%.

Deferred tax calculation in respect of temporary difference:

	Balance as at 31.12.14	**Identified as per financial performance**	**Identified in own capital**	**Identified in other account**	**Balance as at 31.12.15**
Trading securities	3,822				3,822
Property, Plant and Equipment	43,529				43,529
Reposseses assets	7,752				7,752
Other assets	22,613				22,613
Amounts due to customers	10,061				10,061
Other liabilities	27,760				27,760
Total deffered tax asset	**115,537**				**115,537**
Securities available for sale	(86,846)		538		(86,308)
Loans and advances to customers	(392,945)	(203,034)			(595,979)
Property, Plant and Equipment	(994,633)		46,166		(948,467)
Other assets	0			(485)	(485)
				(485)	
Total deffered tax liabilities	**(1,474,424)**	**(203,034)**	**46,704**		**(1,631,239)**
Net deferred tax asset/liability/ note 13	**(1,358,887)**	**(203,034)**	**46,704**	**(485)**	**(1,515,701)**

INTERIM FINANCIAL STATEMENT

"31" December, 2015

Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

(name and address of the bank)

(thous. drams)

	Item	Notes	Current period	Previous year/audited/
1	**Assets**			
1.1	Cash and balances with CBA	14	46,029,188	27,841,421
1.2	Trading securities	15	207,592	-
1.3	Amounts due from other financial institutions	16	9,302,649	7,412,250
1.4	Derivative instruments	17	-	-
1.5	Loans and advances to customers	18	83,998,085	92,888,015
1.6	Investments available for sale	19	4,828,885	1,943,118
1.7	Securities pledged under repurchase agreements	25	5,484,221	6,707,452
1.8	Property, plant and equipment	20	7,321,034	7,297,407
1.9	Intangible assets	21	187,008	253,290
1.10	Assets held for sale	22	2,350,780	2,329,501
1.11	Deferred tax assets	13		-

1.12	Prepaid income taxes		237,793	-
1.13	Other assets	23	1,046,677	961,455
	Total assets		**160,993,913**	**147,633,910**
2	**LIABILITIES AND EQUITY**			
	Liabilities			
2.1	Amounts due to financial institutions	24	19,828,633	21,466,662
2.2	Derivative financial liabilities	17	14,495	180,645
2.3	Trading liabilities	25	-	786,549
2.4	Amounts due to customers	26	108,927,994	92,435,546
2.5	Income tax liability		-	125,931
2.6	Deferred tax liabilities	13	1,515,701	1,358,887
2.7	Other liabilities	27	562,355	502,851
2.8	Subordinated Loans	28	7,430,709	8,272,556
	Total liabilities		**138,279,886**	**125,129,627**
3	**Equity**			
3.1	Share capital	31	**7,002,033**	**7,002,033**
3.2	Share premium		**63,233**	**63,233**
3.3	Statutory general reserve		**1,005,996**	**844,898**
3.3.1	Other reserves		345,239	347,391
3.3.2	Buildings		3,929,664	3,978,488
3.4	Retained earnings		**10,367,861**	**10,268,240**
	Total capital		**22,714,026**	**22,504,283**
	Total liabilities and capital		**160,993,913**	**147,633,910**

Notification 14." Cash and cash equivalents and balances with CBA"

	31.12.15	31.12.14
Cash and cash equivalents and balances with CBA	**46,029,188**	**27,841,421**
Cash in hand	9,872,122	8,049,424
Other money market placements	0	
Correspondent account with the CBA	32,111,909	17,343,318
Correspondent accounts with financial institutions	4,045,157	2,448,679

Notification 15. "Trading securities"

	31.12.15	31.12.14
Trading securities	**207,592**	**0**
Trading securities issued by the Ministry of Finance of RAunquoted	207,592	0
Corporate bonds	0	0

Notification 16. "Amounts due from other financial institutions"

	31.12.15	31.12.14
Amounts due from other financial institutions	**9,302,649**	**7,412,250**
Loans and deposits to financial institutions	7,947,325	5,496,197
Deposited funds with the CBA (ArCa	720,000	520,000
Loans under repurchase accounts	0	842,390
Other amounts	635,324	553,663

Notification 17 "Derivative financial instruments"

In thousand Armenian drams			As of December 31, 2015			As of December 31, 2014
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Foreign exchange contracts						
Swaps – foreign currency	**4,160,250**	**0**	**14,495**	**3,251,100**	**0**	**180,645**
Total derivative financial instruments	**4,160,250**	**0**	**14,495**	**3,251,100**	**0**	**180,645**

Notification 18. "Loans and advances to customers"

	31.12.15	31.12.14
Loans and borrowings to customers	**83,998,085**	**92,888,015**
Loans	77,588,593	85,874,816
Factoring	33,790	0
Overdraft	9,864,331	11,079,459
Letters of credit and bank guarantees	1,359	2,381
Financial leasing	341,346	408,627
Allowance for impairment of loans and advances to customers	(3,831,334)	(4,477,268)

As of December 31 2015, the Bank had a concentration of loans represented by AMD 19,824,613thousand due from the ten largest third party entities and parties related with them (22.57% of gross loan portfolio). (2014: AMD 21,533,450 thousand or 22%:). An allowance for individual impairment in the amount of AMD 334,223 thousand (2014: AMD 215,334 thousand) was made against these loans.

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

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

In thousand Armenian drams	31.12.2015	31.12.2014

Manufacture	9,140,633	3,910,335
Agriculture	4,053,981	2,626,474
Construction	4,503,695	9,210,701
Trading	9,263,987	11,363,683
Transport	4,395,824	5,019,507
Services	795,175	7,499,481
Consumer	29,567,673	31,643,619
Mortgage	20,492,115	20,681,879
Other sectors	5,616,336	5,409,704
Less allowance for loan impairment	(3,831,334)	(4,477,268)
Total loans and advances to customers	**83,998,085**	**92,888,015**

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

In thousand Armenian dr. **31.12.2015**

	Manufac-ture	Agriculture	Construction	Trading	Transport	Services	Consumer	Mortgage	Other	Total
At 1 January 2015	417,018	424,734	1,816,376	416,020	71,937	102,045	324,902	506,462	397,774	4,477,268
Charge/(reversal) for the	80,225	29,865	93,383	85,297	89,618	(71,460)	1,021,107	288,537	538,441	2,155,013
Amounts written off	(11,983)	(315,988)	(1,757,490)	(198,077)	(27,647)	-	(1,024,548)	(604,142)	(342,498)	(4,282,373)
Recoveries	7,470	306,065	198	91,043	15,092	9,135	476,309	365,219	210,895	1,481,426
At 31 December 2015	492,729	444,675	152,467	394,283	148,999	39,720	797,769	556,079	804,613	3,831,334
Individual impairment	468,026	407,078	149,800	361,873	139,783	36,490	77,868	331,000	786,916	2,758,834
Collective impairment	24,703	37,597	2,667	32,410	9,216	3,230	719,901	225,079	17,697	1,072,500
Gross amount of loans in determined to be impaire deducting any individuall impairment allowance	514,769	727,155	997,470	548,736	430,444	114,478	107,730	1,336,648	1,131,478	5,908,908

In thousand Armenian dr. **31.12.2014**

	Manufac-ture	Agriculture	Construction	Trading	Transport	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	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	71,936	102,045	324,901	506,462	397,775	4,477,268
Individual impairment	383,856	404,184	1,751,415	308,031	25,873	27,659	9,242	308,064	352,346	3,570,673
Collective impairment	33,161	20,550	64,961	107,989	46,063	74,386	315,659	198,398	45,429	906,596
Gross amount of loans in determined to be impaire deducting any individuall impairment allowance	594,235	571,391	2,714,622	740,777	237,229	60,887	54,815	864,976	866,762	6,705,694

Impairment on loans and advances is as follows:

<u>On the part of loans and borrowings to customers</u>	**01.01.15-31.12.15**	**01.01.14-31.12.14**
Beginning balance	4,477,268	3,257,518
Net provisions to the reserve / (recovery)	2,155,013	1,646,181
(Writing off)/ return	(2,800,947)	(426,431)
Ending balance	3,831,334	4,477,268

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

In thousand Armenian drams

	31.12.15	**31.12.14**
State owned enterprises	4,261,584	4,297,769
Privately held companies	29,981,099	36,203,390
Individuals	51,105,199	53,460,989
Sole proprietors	2,471,967	3,337,603
Non-commercial institutions	9,570	65,534
Total loans and advances to customers	**87,829,419**	**97,365,283**
Less allowance for loan impairment	**(3,831,334)**	**(4,477,268)**
Total loans and advances to customers	**83,998,085**	**92,888,015**

In thousand Armenian drams

	31.12.15	31.12.14
State owned enterprises	4,261,584	4,297,769

Loans to individuals comprise the following products:

In thousand Armenian drams

	31.12.15	31.12.14
Consumer loans	1,105,084	8,271,456
Credit cards	19,228,605	15,691,502
Mortgage loans	20,492,115	20,684,359
Gold loans	8,248,833	6,563,742
Car loans	542,294	916,392
Other	1,488,268	1,333,538
Total loans and advances to individuals (gross)	**51,105,199**	**53,460,989**

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams

	31.12.15	31.12.14
Gross investment in finance leases, receivable:		
Not later than 1 year	3,859	10,637
Later than 1 year and not later than 5 years	394,117	483,732
	397,976	**494,369**
Unearned future finance income on finance leases	(56,630)	(85,742)
Net investment in finance leases	**341,346**	**408,627**

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 258 thousand at 31 December 2015, and AMD 4,086 thousand at 31 December 2014.

Notification 19. « Investment securities»

	31.12.2015	31.12.2014

Investment securities	**4,828,885**	**1,943,118**
Corporate bonds	399,880	97,161
Securities issued by the Ministry of Finance	3,514,646	1,047,935
Shares of Armenian companies	57,794	57,794
Investments in funds	243,794	223,408
Shares of OECD countries companies	612,771	516,820

All debt securities have fixed coupons.
All unquoted RA available-for-sale equities are recorded at cost less allowance for impairment since their fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold it for the long term.

Fair value for available-for-sale investments which primarily consist of government securities is determined using the yield curve published by Central Bank of Armenia.

Notification 20,21: “Fixed and intangible assets”

Item	Land and buildings	Computer and communication	Transportation	Other fixed assets	Main capital investments	Main capital investments in leasing	Intangible assets	Total
Initial value								
As at 01.01.15	5,826,965	2,462,133	204,820	1,321,822	2,704	911,456	735,344	11,465,244
Replenishment /internal flow	299,138	195,279	2,240	234,742	224,363	123,161	61,609	1,140,532
Alienation /writing off/internal flow	-	(584)	12,014	(136,547)	(203,274)	(80,142)	(826)	(409,359)
As at 31.12.15	**6,126,103**	**2,656,828**	**219,074**	**1,420,017**	**23,793**	**954,475**	**796,127**	**12,196,417**
Accumulated depreciation								
As at 01.01.15	(128,895)	(1,851,926)	(145,820)	(979,180)		(326,672)	(482,054)	(3,914,546)
Replenishment	(137,750)	(247,845)	(12,505)	(129,596)		(130,068)	(127,891)	(785,655)
Alienation /writing off	-	56	(20,269)	7,387	-	23,826	826	11,826
As at 31.12.15	**(266,645)**	**(2,099,715)**	**(178,594)**	**(1,101,389)**	**-**	**(432,914)**	**(609,119)**	**(4,688,376)**
Balance value	**5,859,458**	**557,113**	**40,481**	**318,628**	**23,793**	**521,561**	**187,008**	**7,508,042**

Item	Land and buildings	Computer and communication	Transportation	Other fixed assets	Main capital investments	Main capital investments in leasing	Intangible assets	Total
Initial value								
As at 01.01.14	5,626,000	2,289,170	222,646	1,215,639	2,654	809,196	585,404	10,750,709
Replenishment /internal flow	200,965	177,927	0	127,459	50	107,280	149,940	763,621
Alienation /writing off/internal flow	-	(4,964)	(17,827)	(21,276)	0	(5,020)	0	(49,087)
As at 31.12.14	**5,826,965**	**2,462,133**	**204,820**	**1,321,822**	**2,704**	**911,456**	**735,344**	**11,465,244**
Accumulated depreciation								
As at 01.01.14	-	(1,575,395)	(134,276)	(880,960)		(217,516)	(393,521)	(3,201,668)
Replenishment	(128,895)	(281,496)	(26,997)	(119,475)		(113,938)	(88,533)	(759,334)
Alienation /writing off		4,965	15,453	21,255	-	4,783	-	46,456
As at 31.12.14	**(128,895)**	**(1,851,926)**	**(145,820)**	**(979,180)**		**(326,672)**	**(482,054)**	**(3,914,546)**
Balance value	**5,698,070**	**610,206**	**59,000**	**342,642**	**2,704**	**584,785**	**253,290**	**7,550,696**

Notification 22. "Repossesed assets"

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

	31.12.15	31.12.14
Poperty	2,279,806	1,898,184
Vehicles	13,400	15,000
Other	57,574	416,317
Total	**2,350,780**	**2,329,501**

Notification 23. "Other assets"

	31.12.15	31.12.14
Prepayments and other debtors	320,924	317,136
Receivables on cash transfers	29,336	46,730
Total other financial assets	**350,260**	**363,866**
Less allowance for impairment in respect of financial assets	(45,203)	(48,317)
Total net other financial assets	***305,057***	***315,549***
Unamortized insurance premium	27,033	40,625
Settlements with employees	10,385	2,057
Prepayments to suppliers	68,095	76,720
Other prepaid taxes	21,110	53,743
Materials	191,552	182,973
Precious Metals	421,580	235,226
Other	1,865	54,563
Total non-financial assets	***741,620***	***645,906***
Total other assets	**1,046,677**	**961,455**

Impairment on other assets is as follows:

Other assets	**01.01.15-31.12.15**	**01.01.14-31.12.14**
Beginning balance	48,317	74,501
Net provisions to the reserve / (recovery)	28,654	69,800
(Writing off)/ return	(31,768)	(95,984)
Ending balance	45,203	48,317

Notification 24. "Amounts due to financial institutions"

	31.12.15	31.12.14
Amounts due to financial institutions	**19,828,633**	**21,466,662**
Amounts due to RA CB	4,031,622	3,718,236
Correspondent accounts with banks	327,668	204,385
Loans and deposits from other banks	1,800,961	1,425,783
Current accounts of other financial organizations	511,270	757,941
Loans and deposits from other financial organizations	7,854,466	8,795,661
Repo agreements	5,302,646	6,507,102
Other	0	57,554

Notification 25. "Securities pledged under repurchase agreements"

In thousand Armenian drams	Asset		Liabilty	
	As of December 31,2015	As of December 31,2014	As of Decemberr 31,2015	As of December 31,2014
Securities pledged under repurchase agreements	5,484,221	6,707,452	0	786,549
Total	**5,484,221**	**6,707,452**	**0**	**786,549**

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.

Notification 26. "Amounts due to customers"

	31.12.15	31.12.14
Amounts due to customers	**108,927,994**	**92,435,546**
Government		
- Current/settlement accounts	0	0
loans received	80,609	185,234
Corporate customers:		
- Current/settlement accounts	29,963,159	19,702,317
- Term deposits	16,676,273	19,685,138
Retail customers:		
- Current/demand accounts	18,584,272	11,584,161
- Term deposits	43,623,681	41,278,696

Notification 27 ."Other liabilities"

	31.12.15	31.12.14
Accounts payable	159,222	150,663
Due to personnel	181,430	165,251
Total other financial liabilities	***340,652***	***315,914***
Other provisions	0	0
Tax payable, other than income tax	184,799	147,278
Reveunes of future periods	4,605	4,644
Grants related to assets	30,856	33,278
Other	1,442	1,737
Total Other Non financial liabilities	**221,702**	**186,937**
Total other liabilities	**562,355**	**502,851**

Grants related to assets

In thousand Armenian drams	**As of December 31, 2015**	As of December 31, 2014
At January 1	33,278	35,700
Recognition of income (Note 9)	**(2,422)**	**(2,422)**
At the end of repoting period	30,856	33,278

The movement in other provisions was as follows:

<u>Other provisions</u>	**01.01.15-31.12.15**	**01.01.14-31.12.14**
Beginning balance	0	18,392
Net provisions to the reserve / (recovery)	0	(18,392)
(Writing off)/ return		
Ending balance	0	0

Provisions have been made in respect of costs arising from guarantees.

Notification 28. "Subordinated loans"

	31.12.15	31.12.14
	7,430,709	**8,272,556**
Subordinated debt from CBA	0	1,185,553
Subordinated debt provided by legal entity	7,430,709	7,087,003

	in USD	in th. drams	Rate

	Currency			
Subordinated debt other		**14,400,000**	**7,430,709**	
09/01/12-23/02/21	USD	1,000,000	499,156	2%
09/01/12-09/01/17	USD	3,000,000	1,626,047	8%
31/08/12-23/02/21	USD	2,000,000	1,054,581	7%
04/03/13-05/03/18	USD	1,200,000	640,028	7%
27/06/13-23/02/21	USD	7,200,000	3,610,897	7%

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.

Notification 29. "Total equity"

As at 31 December 2015 the Bank's registered and paid-in share capital was AMD 7,002,033 thousand (2014: AMD 7,002,033 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. (2014: 23,340 ordinary shares and 333 privileged shares).

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

In thousand Armenian drams	**31.12.2015**		31.12.2014	
	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**	**6,651,900**	**95**
Advanced Global Investments LLC (preference shares)	**33**	**-**	**33**	**-**
Saint Apostolic Church of Armenia	**350,100**	**5**	**350,100**	**5**
	7,002,033	**100**	**7,002,033**	**100**

As at 31 December 2015, the Bank did not repurchase any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

The 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.

According to decision of Meeting of Shareholders dated on 29 June 2015dividends declared and paid by the Bank amounted to AMD 562,246thousand(2014: AMD 286,020 thousand). Dividends per ordinary share amounted to AMD 24,1thousand (2014: AMD 17,6 thousand), and dividends per privileged share amounted to AMD 19,8 (2014: AMD 19,8).

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 20% of the Bank's share capital reported in statutory books.

Notification 30. « Liabilities »

The Bank constantly has to give loans such as approved loans, credit cards and overdrafts.

The Bank provides financial guarantees and letters of credit to guarantee liabilities of its customers to third persons. Usually these agreements are provided for fixed periods – up to one year.

In the table below are presented the unutilized parts of liabilities per types:

	31.12.2015	**31.12.2014**
Contract amount		
Guarantees	1,691,965	1,615,421
Loan line liabilities	220,571	215,910
Credit card liabilities	13,855	39,216
Unutilized parts of overdrafts	5,283,809	5,194,090
Letters of credit	0	466,572
Total liabilities with credit risk	**7,210,200**	**7,531,209**

The above-stated total loan liabilities do not suppose any monetary claims in the future as these liabilities can be declared invalid or stopped before financing.

Conditional cases

Legal liabilities

The Bank management is not aware of any actual, incomplete or threatening cases instituted against the Bank.

Tax liabilities

The tax system of Armenia is comparatively new and is characterized with frequent amendments to laws, official interpretations and court decrees, which often are not quite clear, understanding, are contradicting and require explanations from tax bodies. The taxes are subject to check and examination by tax bodies, which are eligible to implement fines and penalties. In case of violation of tax legislation, the tax bodies are eligible to establish additional liabilities (tax, fines or penalties) only in three years after commitment date of violation.

These fact may provoke essential tax risk in Armenia as compared to other countries. The Bank management states that tax liabilities of the Bank are evaluated based on explanations, official declarations and court decrees provided by tax legislation of Armenia. Though, relevant authorized bodies may have other explanations, consequences can be essential for financial reports in any way.

Notification 31. « Transactions with related parties”

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

The ultimate controlling party of the Bank is 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 quarter end, and related expense and income for the quarter are as follows:

In thousand Armenian drams	**As of December 31, 2015**		As of December 31, 2014	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	4,183,084	230,850	3,913,756	216,956
Loans issued during the period	5,826,359	513,784	3,607,362	565,533
Loan repayments during the period	(5,845,657)	(500,804)	(3,338,034)	(551,639)
Loans outstanding at the end of period, gross	4,163,786	243,830	4,183,084	230,850
Less: allowance for loan impairment	(41,638)	(2,438)	(41,831)	(2,308)
Loans outstanding at at the end of period	4,122,148	241,392	4,141,253	228,542
Impairment charge for credit losses	193	(402)	(1,030)	(119)
Interest income on loans	384,239	17,192	366,698	17,434
Amounts due to customers				
Deposits at January 1	27,519,448	146,256	21,477,235	108,463
Deposits received during the period	715,701,719	1,901,770	620,799,115	1,657,822
Deposits repaid during the period	(707,661,870)	(1,947,799)	(614,756,902)	(1,619,029)
Deposits at the end of period	35,559,297	100,227	27,519,448	146,256
	-	-		
Interest expense on deposits	(1,571,553)	(5,896)	(1,400,256)	(6,632)
Accounts receivable				
At January 1	27,169	0	40	0
Increase	286,213	1,259	310,991	1,240
Decrease	(285,226)	(1,259)	(283,862)	(1,240)
At at the end of period	28,156	0	27,169	0
Items of comprehensive statement of Income				
Commission income	25,123	478	20,322	415
Other income	90,474	862	85,519	471
Advisory expenses		(28,368)	-	0
Lease payments	(49,163)		(58,596)	-
Other operating expenses	(35,575)	(217)	(7,542)	(2,051)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**31.12.2015**	31.12.2014

Salaries and other short-term benefits	**381,303**	**368,062**
Total key management compensation	**381,303**	**368,062**

Notification 32. « Fair value measurement"

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

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

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the 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).This category includes instruments values using quoted market pricesin active markets for similar instruments, quoted prices for similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or undrectly observable from market data.

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

32.1 Financial instruments that are not measured at fair value

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

Financial instruments not measured at fair value /Level 2

In thousand Armenian drams		**As of December 31, 2015**		**As of December 31, 2014**
	Carrying value	**Fair value**	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	46,029,188	46,029,188	27,841,421	27,841,421
Amounts due from financial institutions	9,302,649	9,302,649	7,412,250	7,412,250

In thousand Armenian drams	As of December 31, 2015		As of December 31, 2014	
	Carrying value	**Fair value**	Carrying value	Fair value
Loans and advances to customers	83,998,085	83,998,085	92,888,015	92,888,015
Other financial assets	305,057	305,057	315,549	315,549
FINANCIAL LIABILITIES				
Amounts due to financial institutions	19,828,633	19,828,633	21,466,662	21,466,662
Amounts due to customers	108,927,994	108,927,994	92,435,546	92,435,546
Other financial liabilities	340,652	340,652	315,914	315,914
Subodinated loans	7,430,709	7,430,709	8,272,556	8,272,556

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, 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. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

Other borrowings

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of December 31, 2015			As of December 31, 2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS						
Trading securities	-	207,592			0	-
Investments available for sale	-	4,771,091			1,885,325	-
Securities pledged under repurchase agreements	-	5,484,221			6,707,452	-
FINANCIAL LIABILITIES						
Derivative Fianancial liabilities		14,495			180,645	
Trading liabilities		0			786,549	
Net actual cost		**10,448,409**			**7,625,583**	

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.

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	**As of December 31, 2015**			**As of December 31, 2014**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
NON FINANCIAL ASSETS						
Buildings	-	-	2,971,949		-	2,672,811
Land	-	-	3,154,154		-	3,154,154
Net fair value			**6,126,103**			**5,826,965**

Notification 33. « Minimum detections relating to financial risks"

Risk management is an essential factor for banking sector and an important element for the Bank operations. Main risks include interest rates and foreign currency market risks, as well as loan or liquidity risks.

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

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 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.

33.1 Credit risk

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

Geographical concentrations

A sample analysis of geographical concentration of the Bank's financial assets is illustrated below:

Reporting period

Item	RA	OECD countries	Non- OECD countries	Total
Assets				
Cash and balances with the CBA	42,002,034	2,321,873	1,705,281	46,029,188
Trading securities	207,592			207,592
Amounts due from other financial institutions	8,446,280	661,679	194,690	9,302,649
Derivative financial assets				0
Loans and advances to customers	80,535,322	12,746	3,450,017	83,998,085
Investments available for sale	4,216,114	612,771		4,828,885
Securities pledged under repurchase agreements	5,484,221			5,484,221
Other financial assets	120,298	153,800	30,959	305,057
Total assets as of 31 December 2015	**141,011,861**	**3,762,869**	**5,380,947**	**150,155,677**
Total assets as of 31 December 2014	**129,419,244**	**5,134,412**	**2,554,148**	**137,107,805**

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 2015 and December 31 2014.

In thousand Armenian drams	**Financial institutions**	**Manufacturing**	**Agriculture**	**Trading**	**Construction**	**State sector**	**Consumer sector (mortgage)**	**Services**	**Other**	**Total**
Cash and balances with CBA	46,029,188									46,029,188
Trading securities					-	207,592				207,592
Amounts due from other financial institutions	9,302,649									9,302,649
Derivative financial assets	0									0
Loans and advances to customers		8,647,904	3,609,306	8,869,704	4,351,228		48,705,940	5,002,281	4,811,723	**83,998,085**
Investments available for sale	1,314,239	-	-		-	3,514,646	-		0	**4,828,885**
Securities pledged under repurchase agreements	0					5,484,221				**5,484,221**

In thousand Armenian drams	Financial institutions	Manufacturing	Agriculture	Trading	Construction	State sector	Consumer sector (mortgage)	Services	Other	Total
Other financial assets	29,336								275,721	**305,057**
As at 31 December 2015	**56,675,412**	**8,647,904**	**3,609,306**	**8,869,704**	**4,351,228**	**9,206,459**	**48,705,940**	**5,002,281**	**5,087,444**	**150,155,677**
As at 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	137,107,805

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, 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 Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans collateralized by real estate	49,805,080	55,692,182
Loans collateralized by gold	11,191,936	10,092,218
Loans collateralized by guarantees of enterprises	3,923,060	4,006,529
Loans collateralized by vehicles	2,778,470	4,353,145
Loans collateralized by cash	6,500,593	6,511,505
Loans collateralized by inventories	374,423	2,309,944
Loans collateralized by equipment	2,316,609	633,732
Other collateral	6,228,448	8,112,833
Unsecured loans	4,711,100	5,653,195

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Total loans and advances to customers (gross)	**87,829,419**	**97,365,283**

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.

33.1.1 Depreciation and reserve policy

Main characteristics for assessment of loan depreciation are: delay of payment of principal loan and interests over 90 days, difficulties connected with loan flows of borrowers, loan rating reductions, and violation of provisional clauses of agreements. The Bank assesses depreciation either individually or by groups.

Individual assessment of depreciation

The Bank defines the size of relevant reserve of borrowing or loan on individual basis. While defining reserve amounts the following factors are taken into account – reliability of customer business plan, capacity of overcoming financial difficulties, planned earnings and payment of expected dividends in case of insolvency, possibility of other financial aid, and liquidity value of collateral, terms of expected cash flow. Losses from depreciation are assessed as of the day of the reporting period, if the unexpected circumstances don't take special attention.

Group assessment of depreciation

Group assessment is made for non-significant loans (credit cards, mortgages and non-secured consumer loans, inclusively), as well as for individually important loans and borrowings, which don't have evident characteristics of depreciation. Losses from depreciation are assessed each reporting period separately for each classified group.

Group assessment takes into account depreciation amount, which may occur in the portfolio, even if there is no objective evidence in the individual assessment. Losses from deprecation are assessed on account of the following data – history of losses in the portfolio, current economic situation, approximate date of the loss and individual disclosure, or payments expected in case of depreciation.

Valuation of depreciation assessment and reserve of financial guarantees and letters of credit is implemented in the same day as for loans.

The below table presents quality of loan portfolio assessed per depreciation coefficients based on the history of losses.

	31.12.2015	**31.12..2014**
Loans and borrowings to customers	**%**	**%**

	31.12.2015	31.12..2014
Industry	0.3	0.2
Agriculture	1.3	0.0
Building	0.1	0.0
Transport	1.8	0.4
Trade	0.4	0.0
Catering and service	0.3	0.0
Consumer	2.3	0.7
Mortgage	1.2	0.1
Other sectors	0.5	0.0

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

31.12.2015

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	-	2,693	-	94,102	**96,796**
Agriculture	11,760	2,514	4,231	388,198	**406,702**
Construction	76,592	-	-	45,614	**122,206**
Trading	97,676	1,973	48,700	470,856	**619,205**
Transportation & communication	-	-	-	14,103	**14,103**
Consumer	316,609	194,064	77,599	859,125	**1,447,397**
Mortgage	164,806	69,412	173,589	569,017	**976,824**
Services	-	144	-	118,814	**118,958**
Other sectors	19,509	97,463	73,326	36,217	**226,515**
Total	**686,952**	**368,264**	**377,445**	**2,596,046**	**4,028,706**

31.12.2014

In thousand Armenian drams

	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	0	4,476	**19,989**
Agriculture	29,947	21,358	7,857	41,707	**100,869**
Construction	8,219	0	0	287	**8,506**
Trading	19,822	23,820	4,975	75,270	**123,887**

In thousand Armenian drams

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Transportation & communication					**0**
Consumer	276,218	152,475	134,395	342,436	**905,524**
Mortgage	199,203	109,857	4,446	603,159	**916,665**
Services					**0**
Other sectors	30,446	145,182	0	35,751	**211,379**
Total	**574,722**	**457,338**	**151,673**	**1,103,086**	**2,286,819**

33.2 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.

Foreign 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 below table shows those foreign currencies, which can have impact on non-commercial monetary assets, liabilities and cash flow of the Bank as of December 31 2015. The analysis calculates the impact of possible fluctuations of foreign currency against AMD on condition of keeping stable other alterations, on the report on financial results (connected with change of real value non-commercial assets and liabilities against foreign currency) and on capital (connected with change of real value of capital tools). The negative value in the table reflects the potential net reduction in the consolidated financial balance-sheet or in the capital, while the positive value shown potential net growth:

AMD thousand		31.12.2015				31.12.2014
Currency	**Change in FX rate, interest**	**Influence on profit before taxation**	**Influence on capital**	Change in FX rate, interest	Influence on profit before taxation	Influence on capital
USD	**+5**	**(12,158)**	**(9,727)**	**+5**	92,352	117,567
USD	**-5**	**12,158**	**9,727**	**-5**	(92,352)	(117,567)
EUR	**+8**	**(1,885)**	**(1,508)**	**+8**	(16,905)	(16,905)
EUR	**-8**	**1,885**	**1,508**	**-8**	16,905	16,905

The Bank has got assets and liabilities in a range of foreign currencies. The foreign currency risk appears, when actual or forecasted assets in foreign currency exceed or are less than liabilities in the same foreign currency.

The structure of the Bank assets and liabilities per currency as at December 31, 2015 is as follows:

	AMD	I group CCY*	II group CCY**	Total
Assets				
Cash and balances with the CBA	20,851,715	22,714,029	2,463,444	46,029,188
Trading securities	207,592	0	0	207,592
Amounts due from other financial institutions	867,113	8,072,666	362,870	9,302,649
Derivative financial instruments	0	0	0	0
Loans and advances to customers	25,165,537	58,829,003	3,545	83,998,085
Investments available for sale	2,719,080	2,109,805	0	4,828,885
Securities pledged under repurchase agreements	5,484,221			5,484,221
Other financial instruments	45,801	258,400	856	305,057
Total assets	**55,341,059**	**91,983,903**	**2,830,715**	**150,155,677**
Liabilities				
Amounts due to financial institutions	17,062,023	2,624,255	142,355	19,828,633
Derivative financial liabilities	14,495	0		14,495
Trading liabilities	0	0	0	0
Amounts due to customers	21,293,654	85,651,588	1,982,752	108,927,994
Other financial liabilities	319,226	21,426	0	340,652
Subordinated debts	0	7,430,709	0	7,430,709
Total liabilities	**38,689,398**	**95,727,978**	**2,125,107**	**136,542,483**
Net position as at December 31, 2015	**16,651,661**	**(3,744,075)**	**705,608**	**13,613,194**
Net position as at December 31, 2014	**11,206,000**	**1,756,906**	**687,026**	**13,649,933**

Commitments and contingent liabilities as at 31 December 2015	3,616,861	3,386,546	206,793	7,210,200
Commitments and contingent liabilities as at 31 December 2014	3,399,129	4,091,377	40,703	7,531,209

* I group CCYs include the following ones: USD, EUR, GBP, CHF, SEK, CAD, JPY, AUD.
** II group CCYs includes the following ones: RUB, UAH, and BYB.

Interest rate risk

33.2.1 Interest rate risk – Commercial portfolio

In order to calculate the risk of financial assets registered by reassessed real value (with loss/profit/ the Bank implements methods and approaches of Bazel 2 interest rate risk. According to the interest rate thereof the risk is established as consolidated sum of special interest rate and general risks.

With purpose of calculating interest rate risk the positions of debt securities are calculated by below principles against groups of debt securities. Debt securities used in the calculation of the same positions must:

- Must be issued by the same entity ; and
- Expressed with the same currency ; and
- Have same profitability, or difference between profitability earnings should not exceed 0.2 interest point.

The table below presents the interest rate risk of the Bank commercial portfolio.

AMD thousand	**Special risk**	**General risk**	**Total commercial securities risk**
As at December 31, 2015	11,780	26,017	37,797
As at December 31, 2014	26,230	75,244	101,474

33.2.2 Interest rate risk – Non-commercial

Interest rate risk is the risk of changes in the Bank income and financial tools portfolio as a result of changes in interest rates.
The following table shows sensibility of the Report on the Bank consolidated financial results on condition of leaving the alternating quantity unchanged.
Sensibility of the report on financial results in interest rates is the influence of expected changes on the net interest income of the quarter on the part of non-commercial financial assets and liabilities with fluctuating interest rates in the balance as of 31.12.2015. Accounting of the capital sensibility is made by revaluation of the assets available for sale and with fixed interest rates as of 31.12.2015, assuming as basis expected changes in interest rates.
Sensibility of the capital is analyzed per liquidity term of the assets. Total sensibility of the capital is based on the supposition that there are parallel alternations in the arch of profitability.

AMD thousand **31.12.2015**

			Capital sensitivity				
Currency	**Changes in principal interest rates**	**Net interest income sensitivity**	**Up to 6 month**	**From 6 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
AMD	+1%	**2,076**	**6,294**	-	**10,158**	**1,595**	**20,123**
USD	+1%	-	-		**21,098**	-	**21,098**
AMD	-1%	**(2,076)**	**(6,294)**	-	**(10,158)**	**(1,595)**	**(20,123)**

AMD thousand **31.12.2015**

Capital sensitivity

Currency	**Changes in principal interest rates**	**Net interest income sensitivity**	**Up to 6 month**	**From 6 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
USD	-1%	-	-		**(21,098)**	-	**(21,098)**

AMD thousand **31.12.2014**

Capital sensitivity

Currency	**Changes in principal interest rates**	**Net interest income sensitivity**	**Up to 6 month**	**From 6 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
AMD	+1%	-	10,479	-	972	-	11,451
USD	+1%	-	-		-	-	0
AMD	-1%	-	(10,479)	-	(972)	-	(11,451)
USD	-1%	-	-		-	-	0

Liquidity Risk

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

31.12.2015
31.12.2014

	Demand and less 1 month	From 1 to 3 month	From 3 to 12 month	*Subtotal less than 12 month*	From 1 to 5 years	More than 5 years	*Subtotal over 12 month*	Total
Assets								
Cash and balances with the CBA	46,029,188	-	-	***46,029,188***	-	-	***0***	**46,029,188**
Trading securities				***0***	207,592		***207,592***	**207,592**
Amounts due from other financial institutions	3,880,149	8,264	3,903,162	***7,791,575***	90632	1,420,442	***1,511,074***	**9,302,649**
Derivative financial instruments	-	-	0	***0***	-	-	***0***	**0**
Loans and advances to customers	8,183,200	5,694,021	23,695,226	***37,572,447***	23,892,697	22,532,941	***46,425,638***	**83,998,085**
Investments available for sale		5,140	655,788	***660,927***	832,310	3,335,648	***4,167,958***	**4,828,885**
Securities pledged under repurchase agreements				***0***	2,888,798	2,595,423	***5,484,221***	**5,484,221**
Other financial assets	305,057		-	***305,057***		-	***0***	**305,057**
	58,397,594	**5,707,425**	**28,254,176**	**92,359,194**	**27,912,029**	**29,884,454**	**57,796,483**	**150,155,677**
Liabilities				***0***			***0***	**0**
Amounts due to financial institutions	8,161,661	757,624	3,085,004	***12,004,289***	6,572,786	1,251,558	***7,824,344***	**19,828,633**
Derivative financial liabilities	14,495			***14,495***			***0***	**14,495**
Trading liabilities				***0***			***0***	**0**
Amounts due to customers	55,176,766	9,045,852	40,040,814	***104,263,432***	4,586,069	78,493	***4,664,562***	**108,927,994**
Other financial liabilities	340,652			***340,652***				**340,652**
Subordinated debts			0	***0***	2,266,076	5,164,633	***7,430,709***	**7,430,709**
	63,693,575	**9,803,476**	**43,125,818**	**116,622,869**	**13,424,931**	**6,494,684**	**19,919,614**	**136,542,483**
Net position	**(5,295,981)**	**(4,096,051)**	**(14,871,642)**	**(24,263,674)**	**14,487,099**	**23,389,770**	**37,876,869**	
Cumulative Liquidity Gap		**(9,392,032)**	**(24,263,674)**		**(9,776,576)**	**13,613,194**		

	Demand and less 1 month	From 1 to 3 month	From 3 to 12 month	*Subtotal less than 12 month*	From 1 to 5 years	More than 5 years	*Subtotal over 12 month*	Total
Assets								
Cash and balances with the CBA	27,841,421	-	-	***27,841,421***	-	-	***0***	**27,841,421**
Trading securities				***0***			***0***	**0**
Amounts due from other financial institutions	1,851,165	1,166,819	3,172,417	***6,190,401***	109424	1,112,425	***1,221,849***	**7,412,250**
Derivative financial instruments				***0***			***0***	**0**
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	0	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***		-	***0***	**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								
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**
Derivative financial instruments	180,645			***180,645***			***0***	**180,645**
Trading liabilities	786,549			***786,549***				**786,549**
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**
Other financial liabilities	315,914			***315,914***				**315,914**
Subordinated debts	4,055		1,160,700	***1,164,755***	7,107,801		***7,107,801***	**8,272,556**
Net position	**(14,358,636)**	**(4,998,561)**	**(11,917,587)**	**(31,274,784)**	**13,814,494**	**31,110,223**	**44,924,717**	
Cumulative Liquidity Gap		**(19,357,197)**	**(31,274,784)**		**(17,460,290)**	**13,649,933**		

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.

***Notification 34.* « Capital and 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 maximize shareholders' value.

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

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

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

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