Ameriabank cjsc

Financial statements

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

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Independent auditors' report

To the Board of Diectors and Shareholder of Closed Joint-Stock Company Ameriabank

We have audited the accompanying financial statements of Ameriabank CJSC, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ameriabank CJSC as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Partner — Sergei Taskaev

On behalf of General Director A. Sarkisyan
(by power of authority dated 31 July 2013) — Eric Hayrapetyan

CJSC Ernst & Young

20 February 2015

Statement of comprehensive income

for the year ended 31 December 2014

	Notes	*2014 AMD'000*	*2013 AMD'000*
Interest income	4	27,711,993	23,164,643
Interest expense	4	(13,086,733)	(11,110,094)
Net interest income		**14,625,260**	**12,054,549**
Fee and commission income	5	2,306,764	2,055,424
Fee and commission expense	6	(431,643)	(413,461)
Net fee and commission income		**1,875,121**	**1,641,963**
Net gain/(loss) on financial instruments at fair value through profit or loss	7	(4,592,239)	146,439
Net foreign exchange income	8	7,596,530	1,821,577
Net gain on available-for-sale financial assets		177,614	146,423
Other operating income	9	371,007	401,129
Operating income		**20,053,293**	**16,212,080**
Impairment losses	10	(1,731,323)	(1,959,550)
Personnel expenses		(6,011,844)	(3,391,800)
Other general administrative expenses	11	(3,284,221)	(3,173,969)
Profit before income tax		**9,025,905**	**7,686,761**
Income tax expense	12	(1,877,035)	(1,629,573)
Profit for the year		**7,148,870**	**6,057,188**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(509,682)	615,817
- Net change in fair value transferred to profit or loss		(177,614)	(146,423)
- Income tax effect		137,459	(93,879)
Total items that are or may be reclassified subsequently to profit or loss		**(549,837)**	**375,515**
Other comprehensive income for the year, net of income tax		**(549,837)**	**375,515**
Total comprehensive income for the year		**6,599,033**	**6,432,703**

The financial statements as set out on pages 5 to 55 were approved by the Management Board on 20 February 2015 and were signed on its behalf by:

Artak Hanesyan
General Director
Chairman of Management Board

Gohar Khachatryan
Chief Accountant

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

Statement of financial position

as at 31 December 2014

	Notes	*2014 AMD'000*	*2013 AMD'000*
Assets			
Cash and cash equivalents	13	68,115,676	98,815,692
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	–	43,406
- Pledged under sale and repurchase agreements	14	–	844,660
Available-for-sale financial assets			
- Held by the Bank	15	518,781	3,525,900
- Pledged under sale and repurchase agreements	15	7,092,783	5,815,585
Loans and advances to banks	16	1,157,853	3,106,483
Amounts receivable under reverse repurchase agreements	17	1,526,358	8,441,159
Loans to customers	18	278,808,949	169,861,420
Receivables from letters of credit	19	14,216,567	8,966,815
Receivables from finance leases	20	2,852,570	2,696,869
Receivables from factoring	21	4,481,019	3,575,063
Held-to-maturity investments			
- Held by the Bank	22	920,668	885,566
- Pledged under sale and repurchase agreements	22	14,114,862	3,361,500
Assets held for sale		420,928	254,192
Property, equipment and intangible assets	23	2,830,644	2,894,285
Deferred tax asset	12	142,617	–
Other assets	24	2,543,863	1,959,501
Total assets		**399,744,138**	**315,048,096**
Liabilities			
Financial instruments at fair value through profit or loss	14	673,732	234,160
Deposits and balances from banks	25	30,204,324	16,911,817
Amounts payable under repurchase agreements	26	21,301,407	16,013,140
Current accounts and deposits from customers	27	208,696,931	169,942,151
Subordinated borrowings	28	15,380,080	4,967,435
Other borrowed funds	28	77,625,847	65,391,149
Current tax liability		685,795	502,824
Deferred tax liability	12	–	166,410
Other liabilities	29	2,821,256	2,213,277
Total liabilities		**357,389,372**	**276,342,363**
Equity			
Share capital	30	25,447,680	25,447,680
Share premium		28,571	28,571
Revaluation reserve for available-for-sale financial assets		(132,315)	417,522
Retained earnings		17,010,830	12,811,960
Total equity		**42,354,766**	**38,705,733**
Total liabilities and equity		**399,744,138**	**315,048,096**

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

Statement of cash flows

for the year ended 31 December 2014

	Notes	2014 AMD'000	2013 AMD'000
Cash flows from operating activities			
Interest receipts		25,864,025	22,149,666
Interest payments		(11,133,566)	(9,948,831)
Fee and commission receipts		2,307,052	2,055,424
Fee and commission payments		(431,643)	(413,461)
Net receipts from available-for-sale financial assets and financial assets at fair value through profit and loss		912,281	146,423
Net receipts from foreign exchange transactions		2,344,808	1,478,075
Other income receipts		404,854	796,365
Salaries and other payments to employees		(5,110,592)	(3,461,347)
Other general administrative expenses payments		(2,554,065)	(2,496,917)
(Increase)/ decrease in operating assets			
Financial instruments at fair value through profit or loss		(4,350,621)	(716,784)
Available-for-sale financial assets		(904,455)	(2,818,225)
Loans and advances to banks		4,128,484	7,861,085
Amounts receivable under reverse repurchase agreements		6,889,382	(7,455,244)
Loans to customers		(77,290,901)	(29,607,736)
Receivables from letters of credit		(4,060,959)	1,161,610
Receivables from finance leases		448,168	742,383
Receivables from factoring		(649,666)	(1,900,512)
Other assets and assets held for sale		(236,308)	1,057,805
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		346,654	(163,813)
Deposits and balances from banks		7,491,140	(1,894,973)
Amounts payable under repurchase agreements		4,934,599	15,999,428
Current accounts and deposits from customers		22,898,046	46,354,734
Other liabilities		(1,221,592)	(859,790)
Net cash (used in)/from operating activities before income tax paid		**(28,974,875)**	**38,065,365**
Income tax paid		(1,865,632)	(1,411,860)
Cash flows from operations		**(30,840,507)**	**36,653,505**
Cash flows from investing activities			
Purchases of property and equipment and intangible assets		(696,832)	(1,051,970)
Sales of property and equipment and intangible assets		707	2,906
Proceeds from held-to-maturity investments		(7,538,838)	2,859,914
Cash flows from/(used in) investing activities		**(8,234,963)**	**1,810,850**
Cash flows from financing activities			
Proceeds from issuance of share capital		–	320
Dividends paid		(2,950,000)	(4,500,000)
Receipt of subordinated borrowing		8,139,600	4,870,920
Receipts of other borrowed funds		23,234,764	8,753,144
Repayment of other borrowed funds		(19,789,715)	(5,271,574)
Cash flows from (used in) financing activities		**8,634,649**	**3,852,810**
Net (decrease)/increase in cash and cash equivalents		**(30,440,821)**	**42,317,165**
Effect of changes in exchange rates on cash and cash equivalents		(259,195)	(1,068,688)
Cash and cash equivalents as at the beginning of the year		**98,815,692**	**57,567,215**
Cash and cash equivalents as at the end of the year	13	**68,115,676**	**98,815,692**

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

Statement of changes in equity

for the year ended 31 December 2014

AMD'000		*Share capital*	*Share premium*	*Revaluation reserve for available-for-sale financial assets*	*Retained earnings*	*Total equity*
Balance as at 1 January 2013		**25,447,360**	**28,571**	**42,007**	**11,254,772**	**36,772,710**
Total comprehensive income						
Profit for the year		–	–	–	6,057,188	**6,057,188**
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax		–	–	492,653	–	**492,653**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax		–	–	(117,138)	–	**(117,138)**
Total items that are or may be reclassified subsequently to profit or loss		**–**	**–**	**375,515**	**–**	**375,515**
Total other comprehensive income		**–**	**–**	**375,515**	**–**	**375,515**
Total comprehensive income for the year		**–**	**–**	**375,515**	**6,057,188**	**6,432,703**
Transactions with owners, recorded directly in equity						
Shares issued		320	–	–	–	**320**
Dividends	30	–	–	–	(4,500,000)	**(4,500,000)**
Total transactions with owners		**320**	**–**	**–**	**(4,500,000)**	**(4,499,680)**
Balance as at 31 December 2013		**25,447,680**	**28,571**	**417,522**	**12,811,960**	**38,705,733**
Balance as at 1 January 2014		25,447,680	28,571	417,522	12,811,960	**38,705,733**
Total comprehensive income						
Profit for the year		–	–	–	7,148,870	**7,148,870**
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax		–	–	(407,746)	–	**(407,746)**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax		–	–	(142,091)	–	**(142,091)**
Total items that are or may be reclassified subsequently to profit or loss		**–**	**–**	**(549,837)**	**–**	**(549,837)**
Total other comprehensive income		**–**	**–**	**(549,837)**	**–**	**(549,837)**
Total comprehensive income for the year		**–**	**–**	**(549,837)**	**7,148,870**	**6,599,033**
Transactions with owners, recorded directly in equity						
Dividends	30	–	–	–	(2,950,000)	**(2,950,000)**
Total transactions with owners		**–**	**–**	**–**	**(2,950,000)**	**(2,950,000)**
Balance as at 31 December 2014		**25,447,680**	**28,571**	**(132,315)**	**17,010,830**	**42,354,766**

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

1. Background

(a) Organisation and operations

Ameriabank cjsc (formerly Armimpexbank cjsc) (the Bank) was established on 8 September 1992 under the laws of the Republic of Armenia. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011. In 2013 Ameria Group (CY) Limited increased it's share in the Bank to 100%.

The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank's assets and liabilities are located in Armenia.

The Bank has ten branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 9 Grigor Lusavorich Street, Yerevan 0015, Republic of Armenia. The average number of the Bank's employees for 2014 was 590 (2013: 533).

The sole shareholder of the Bank as at 31 December 2014 and 31 December 2013 is Ameria Group (CY) which owns 100% of the Bank's shares.

The Bank is ultimately controlled by a single individual, Ruben Vardanyan, who has the power to direct the transactions of the Bank at his own discretion and for his own benefit.

Related party transactions are detailed in note 36.

(b) Armenian business environment

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

In 4th quarter of 2014, the Armenian economy was negatively impacted by significant devaluation of the Armenian Dram. This resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects.

Management believes that Bank's financial positions are relevant to overcome challenges in the current circumstances and it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Reclassifications

The following reclassification has been made to 2013 balances to conform to the 2014 presentation:

	As previously reported	*Reclassification*	*As adjusted*
Deposits and balances from banks	22,935,230	(6,023,413)	16,911,817
Other borrowed funds	59,367,736	6,023,413	65,391,149
Interest income	22,769,407	395,236	23,164,643
Other operating income	796,365	(395,236)	401,129

2. Basis of preparation (continued)

(d) Functional and presentation currency

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

The AMD is also the presentation currency for the purposes of these financial statements.

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

(e) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 18 “Loans to customers”.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 37.

(f) Changes in accounting policies and presentation

Changes in accounting policies

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

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

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

IFRIC Interpretation 21 Levies (IFRIC 21)

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

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

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

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

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

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2(f), which addresses changes in accounting policies.

(a) Foreign currency

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

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortized cost

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

(v) Fair value measurement principles

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

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

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

(ix) Derivative financial instruments

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

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

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

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

(x) Offsetting

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

(d) Property and equipment

(xi) Owned assets

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

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

(xii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	5-10 years
Computers and communication equipment	1 to 7 years
Fixtures and fittings	3 to 10 years
Motor vehicles	7 years

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

(e) Intangible assets

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

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

3. Significant accounting policies (continued)

(e) Intangible assets (continued)

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

(f) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(g) Impairment

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

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

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

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(xiii) Financial assets carried at amortized cost

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

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

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

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

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

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

3. Significant accounting policies (continued)

(g) Impairment (continued)

(xiv) Financial assets carried at cost

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

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

(xv) Available-for-sale financial assets

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

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

(xvi) Non financial assets

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

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

(h) Provisions

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

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Credit related commitments

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

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

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

3. Significant accounting policies (continued)

(i) Credit related commitments (continued)

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognized, except for the followings:

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

(j) Share capital

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

(xvii) Share premium

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

(xviii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(xix) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared and such decision is effective according to legislation of the Republic of Armenia.

(k) Taxation

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

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

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

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

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

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

3. Significant accounting policies (continued)

(l) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognized in gains (losses) from financial instruments at fair value through profit or loss.

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

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

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

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

(m) Leases

Finance – Bank as lessee

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

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

Finance – Bank as lessor

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

Operating – Bank as lessee

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

Operating – Bank as lessor

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

(n) New standards and interpretations not yet adopted

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

3. Significant accounting policies (continued)

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

IFRS 9 Financial Instruments

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

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

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

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

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

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

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

3. Significant accounting policies (continued)

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

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

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

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of effective IFRSs – Amendments to IFRS 1

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

Annual improvements 2012-2014 Cycle

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

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

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

3. Significant accounting policies (continued)

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

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

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

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

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

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

4. Net interest income

	2014 AMD’000	*2013 AMD’000*
Interest income		
Loans to customers	23,363,086	19,421,429
Held-to-maturity investments	1,182,273	666,449
Receivables from letters of credit	923,406	635,798
Available-for-sale financial assets	764,705	826,031
Receivables from factoring	707,560	395,236
Receivables from finance leases	344,753	350,256
Amounts receivable under reverse repurchase agreements	282,580	302,775
Loans and advances to banks	108,342	539,927
Other	35,288	26,742
	27,711,993	**23,164,643**
Interest expense		
Current accounts and deposits from customers	7,669,949	6,353,114
Other borrowed funds and subordinated borrowing	3,796,762	3,553,879
Deposits and balances from banks	661,980	480,639
Amounts payable under repurchase agreements	259,924	150,115
Other	698,118	572,347
	13,086,733	**11,110,094**
Net interest income	**14,625,260**	**12,054,549**

5. Fee and commission income

	2014 AMD'000	2013 AMD'000
Credit card maintenance	1,026,049	846,873
Cash withdrawal and account service	415,636	254,231
Money transfers	406,384	383,366
Guarantee and letter of credit issuance	276,437	257,395
Brokerage services	119,727	228,080
Settlement operations	25,109	18,914
Other	37,422	66,565
	2,306,764	**2,055,424**

6. Fee and commission expense

	2014 AMD'000	2013 AMD'000
Credit card maintenance	234,327	175,585
Guarantee and letter of credit issuance	92,936	90,617
Money transfers	65,131	46,934
Other	39,249	100,325
	431,643	**413,461**

7. Net gain/(loss) on financial instruments at fair value through profit or loss

Net gain/(loss) on financial instruments at fair value through profit or loss in amount of AMD (4,592,239) thousand (2013: AMD 146,439 thousand) includes revaluation of currency and interest rate derivative instruments, which are used for hedging open currency positions.

8. Net foreign exchange income

	2014 AMD'000	2013 AMD'000
Net gain on spot transactions	2,344,808	1,478,075
Net gain from revaluation of financial assets and liabilities	5,251,722	343,502
	7,596,530	**1,821,577**

9. Other operating income/(expenses)

	2014 AMD'000	2013 AMD'000
Income from fines and penalties	1,298,535	1,105,480
Net income from disposal of fixed assets	587	1,053
Other income	76,085	102,883
Expenses on fines and penalties	(40,870)	(1,058)
Encashment	(53,825)	(47,520)
Trading and brokerage activities	(99,025)	(166,078)
Guarantee payments to Armenian Deposit Guarantee Fund	(184,121)	(138,120)
Software maintenance	(201,053)	(168,725)
Payment system expenses	(260,917)	(222,232)
Other expenses	(164,389)	(64,554)
	371,007	**401,129**

10. Impairment losses

	2014 AMD'000	2013 AMD'000
Loans to customers	(1,650,911)	(1,863,614)
Other impairments	(80,412)	(95,936)
	(1,731,323)	**(1,959,550)**

11. Other general administrative expenses

	2014 AMD'000	*2013 AMD'000*
Operating lease expense	821,362	759,811
Depreciation and amortization	760,473	677,053
Advertising and marketing	581,983	571,474
Repairs and maintenance	196,411	166,274
Charity and sponsorship	136,173	323,596
Communications and information services	94,608	122,877
Training and education	88,456	31,832
Professional services	77,505	40,551
Electricity and utilities	75,380	51,691
Security	58,733	57,402
Travel expenses	47,817	57,252
Taxes other than on payroll and income	28,734	13,199
Representation expenses	24,761	28,274
Office supplies	22,816	25,113
Insurance	20,486	14,522
Other	248,523	233,048
	3,284,221	**3,173,969**

12. Income tax expense

	2014 AMD'000	*2013 AMD'000*
Current tax expense		
Current year	2,048,603	1,606,718
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	(171,568)	22,855
Total income tax expense	**1,877,035**	**1,629,573**

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

Reconciliation of effective tax rate

	2014 AMD'000	*%*	*2013 AMD'000*	*%*
Profit before tax	**9,025,905**		**7,686,761**	
Income tax at the applicable tax rate	1,805,181	20%	1,537,352	20%
Prior period income tax correction	33,024	0.40%	–	–
Non-deductible costs	38,830	0.80%	92,221	1.2%
	1,877,035	**20.8%**	**1,629,573**	**21.2%**

(a) Deferred tax asset and liability

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

The deductible temporary differences do not expire under current tax legislation.

12. Income tax expense (continued)

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

2014 *AMD'000*	*Balance 1 January 2014*	*Recognized in profit or loss*	*Recognized in other compre-hensive income*	*Balance 31 December 2014*
Financial instruments at fair value through profit or loss	46,263	(13,998)	–	32,265
Available-for-sale financial assets	(104,380)	–	137,459	33,079
Loans to customers	(205,556)	(32,094)	–	(237,650)
Allowance for other receivables and other provisions	(137,466)	27,204	–	(110,262)
Property and equipment	41,148	19,717	–	60,865
Other assets	13,107	(3)	–	13,104
Other liabilities	180,474	170,742	–	351,216
	(166,410)	**171,568**	**137,459**	**142,617**

2013 *AMD'000*	*Balance 1 January 2013*	*Recognized in profit or loss*	*Recognized in other compre-hensive income*	*Balance 31 December 2013*
Financial instruments at fair value through profit or loss	60,709	(14,446)	–	46,263
Available-for-sale financial assets	(10,501)	–	(93,879)	(104,380)
Loans to customers	(239,562)	34,006	–	(205,556)
Allowance for other receivables and other provisions	(73,721)	(63,745)	–	(137,466)
Property and equipment	26,693	14,455	–	41,148
Other assets	13,207	(100)	–	13,107
Other liabilities	173,499	6,975	–	180,474
	(49,676)	**(22,855)**	**(93,879)**	**(166,410)**

13. Cash and cash equivalents

	2014 *AMD'000*	*2013* *AMD'000*
Cash on hand	9,566,767	10,955,628
Nostro accounts with the CBA, including obligatory reserves	50,575,892	68,814,293
Nostro accounts with other banks		
- rated AA- to AA+	2,883	12,010
- rated A- to A+	6,742,373	17,914,102
- rated from BB- to BBB+	1,148,984	1,084,152
- not rated	78,777	35,507
Total nostro accounts with other banks	**7,973,017**	**19,045,771**
Total cash and cash equivalents	**68,115,676**	**98,815,692**

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

As of 31 December 2014 included in Nostro accounts with the CBA, is the amount of obligatory reserve of AMD 852,538 thousand for amounts in attracted in Armenian drams (2013: AMD 1,216,532 thousand) and AMD 43,153,758 thousand for amounts attracted in foreign currency (2013: AMD 21,180,070 thousand).

No cash and cash equivalents are impaired or past due. The above ratings of correspondent Banks are per Fitch rating agency.

As at 31 December 2014 the Bank has no banks (2013: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 was AMD 13,957,925 thousand.

As at 31 December 2014 and 31 December 2013 the balances with the Central Bank of Armenia exceed 10% of equity.

14. Financial instruments at fair value through profit or loss

	2014 AMD'000	*2013 AMD'000*
Assets		
Held by the Bank		
Debt and other fixed-income instruments		
Corporate bonds		
- not rated	–	43,406
Derivative financial instruments		
Other contracts	–	–
	–	**43,406**
Pledged under sale and repurchase agreements		
Corporate bonds		
- not rated	–	844,660
	–	**844,660**
Liabilities		
Derivative financial instruments		
Interest rate swaps	161,325	231,316
Foreign currency contracts	512,245	–
Other contracts	162	2,844
	673,732	**234,160**

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

No financial assets at fair value through profit or loss are past due or impaired.

Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2014 and 2013 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss, as appropriate.

	Fair value		***Notional amount***	
	2014 AMD'000	***2013 AMD'000***	***2014 AMD'000***	***2013 AMD'000***
Pay fixed in USD, receive floating in USD	(161,325)	(231,316)	13,817,309	15,027,118

As at 31 December 2014 Bank has three interest rate swap contracts with USD 15,000,000 notional amount each (2013: three interest rate swap contracts with USD 15,000,000 notional amount each). Under these contracts the Bank pays 2.1350%, 1.3125% and 0.9450% fixed rates, and receives 6-month USD-LIBOR-BBA (British Bankers' Association) floating rates for each contract, respectively. The contractual maturity of outstanding interest rate swap contracts is 2018.

15. Available-for-sale financial assets

	2014 AMD'000	2013 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	268,753	2,187,976
Eurobonds of the Republic of Armenia	–	818,558
- Corporate bonds		
International Financial Institutions	104,832	375,876
Other	38,738	41,023
Equity investments		
- Unquoted equity securities	106,458	102,467
	518,781	**3,525,900**
Pledged under sale and repurchase agreements with the CBA		
Government bonds of the Republic of Armenia	3,578,952	5,815,585
Eurobonds of the Republic of Armenia	3,317,063	–
Bonds of International Financial Institutions	196,768	–
	7,092,783	**5,815,585**

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

Name	Country of incorporation	Main activity	% Controlled 2014	% Controlled 2013	2014 AMD'000	2013 AMD'000
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	34,826
Artsakh bank cjsc	Republic of Armenia	Banking	1.06%	1.06%	69,250	66,862
SWIFT	Belgium	Money transfer	0.00%	0.00%	779	779
					106,458	**102,467**

(a) Investments without a determinable fair value

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

(b) Reclassifications out of available-for-sale financial assets

During 2014, the Bank reclassified certain available-for-sale assets to held-to-maturity investments for which at the date of reclassification it had the intention and ability to hold them until maturity. The assets reclassified represent Government securities of the Republic of Armenia and securities of International Financial Institutions.

The reclassifications were made during 2014 at the fair value at reclassification date. The table below sets the fair values of the financial assets reclassified at the date of reclassification and amortized cost at 31 December 2014:

2014 AMD'000	*Fair value at reclassification*	*Amortized cost at 31 December 2014*
Available-for-sale financial assets reclassified to held-to-maturity investments		
Government securities of the Republic of Armenia	2,262,610	2,208,417
Bonds of International Financial Institutions	203,212	200,329
	2,465,822	**2,408,746**

The financial assets reclassified during 2014 mature as follows:

	AMD'000
Less than 1 years	1,068,565
Between 1 and 5 years	1,397,257
	2,465,822

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

(b) Reclassifications out of available-for-sale financial assets (continued)

The effective interest rates on reclassified available-for-sale investment securities ranged from 9.7% to 15.7% and the new effective interest rate for reclassified held-to-maturity investment securities was from 8.7% to 10.6%.

The Bank recognized fair value loss on the reclassified assets in other comprehensive income for 2014 in amount of AMD 99,240 thousand (2013: gain in amount of AMD 300,832 thousand).

Fair value loss that would have been recognised in other comprehensive income if the financial assets had not been reclassified is AMD 75,693 thousand.

16. Loans and advances to banks

	2014 AMD'000	*2013 AMD'000*
Due from the CBA		
Credit card settlement deposit with the CBA	820,000	720,000
Loans and deposits with other banks		
Armenian banks	–	2,030,799
OECD banks	295,220	322,994
Foreign other banks	42,633	32,690
Total loans and deposits with other banks	**337,853**	**2,386,483**
Total loans and advances to banks	**1,157,853**	**3,106,483**

No loans and advances to banks are impaired or past due.

Included in loans and deposits with OECD banks and other foreign banks is AMD 322,827 thousand (2013: AMD 355,684 thousand) which represents deposits pledged for letters of credit, guarantees and credit cards.

Concentration of loans and advances to banks

As at 31 December 2014 the Bank does not have a single correspondent bank (2013: no bank), which balances exceed 10% of equity.

17. Amounts receivable under reverse repurchase agreements

	2014 AMD'000	*2013 AMD'000*
Amounts receivable from medium and small Armenian financial institutions	1,526,358	7,423,387
Amounts receivable from a medium size Armenian bank	–	1,017,772
	1,526,358	**8,441,159**

Collateral

As at 31 December 2014 amounts receivable under reverse repurchase agreements were collateralized by government and non-government securities with fair value of AMD 1,590,527 thousand (2013: 8,098,541 thousand).

The collateral of AMD 1,217,526 thousand pledged for amounts receivable under reverse repurchase agreements is re-pledged for amounts payable under repurchase agreements as at 31 December 2014 (2013: 5,910,451).

18. Loans to customers

	2014 AMD'000	*2013 AMD'000*
Loans to corporate customers		
Loans to large corporates	179,788,620	106,095,838
Loans to small and medium size companies	58,195,133	33,670,967
Total loans to corporate customers	**237,983,753**	**139,766,805**
Loans to retail customers		
Mortgage loans	17,277,164	10,250,398
Credit cards	16,367,111	10,424,703
Auto loans	4,094,804	3,359,988
Consumer loans	3,046,377	1,183,682
Business loans to individuals	2,495,719	5,853,812
Other	278,684	408,542
Total loans to retail customers	**43,559,859**	**31,481,125**
Gross loans to customers	**281,543,612**	**171,247,930**
Impairment allowance	(2,734,663)	(1,386,510)
Net loans to customers	**278,808,949**	**169,861,420**

In the table below loans to corporate customers of high grade are those having a minimal level of credit risk, normally very well collateralized (cash collateral or state guarantee). Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

	Neither past due nor impaired			*Past due but*	*Individually*	
	High grade 2014	*Standard grade 2014*	*Sub-standard grade 2014*	*not impaired 2014*	*impaired 2014*	*Total 2014*
Net Loans to corporate customers	32,826,034	196,085,992	–	5,163,171	1,684,533	**235,759,730**

	Neither past due nor impaired			*Past due but*	*Individually*	
	High grade 2013	*Standard grade 2013*	*Sub-standard Grade 2013*	*not impaired 2013*	*impaired 2013*	*Total 2013*
Net Loans to corporate customers	3,143,101	133,486,488	–	725,624	1,233,041	**138,588,254**

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

	Loans to corporate customers AMD'000	*Loans to retail customers AMD'000*	*Total AMD'000*
Balance at the beginning of the year	1,178,551	207,959	**1,386,510**
Net charge	1,140,671	510,240	**1,650,911**
Recovery of loans previously written off	94,574	405,891	**500,465**
Write-offs	(189,773)	(613,450)	**(803,223)**
Balance at the end of the year	**2,224,023**	**510,640**	**2,734,663**

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

	Loans to corporate customers AMD'000	*Loans to retail customers AMD'000*	*Total AMD'000*
Balance at the beginning of the year	469,065	164,430	**633,495**
Net charge	1,553,069	310,545	**1,863,614**
Recovery of loans previously written off	73,351	27,670	**101,021**
Write-offs	(916,934)	(294,686)	**(1,211,620)**
Balance at the end of the year	**1,178,551**	**207,959**	**1,386,510**

18. Loans to customers (continued)

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment:				
- not overdue	173,503,081	347,006	173,156,075	0.2%
- overdue more than 30 days and less than 90 days	600,387	1,201	599,186	0.2%
Total loans without individual signs of impairment:	**174,103,468**	**348,207**	**173,755,261**	**0.20%**
Loans with individual signs of impairment				
Not impaired loans:				
- overdue more than 270 days	3,255,951	6,512	3,249,439	0.2%
Impaired loans:				
- overdue more than 181 days and less than 270 days	191,645	20,805	170,840	10.9%
- overdue more than 270 days	2,237,556	1,213,973	1,023,583	54.3%
Total loans with individual signs of impairment	**5,685,152**	**1,241,290**	**4,443,862**	**21.83%**
Total loans to large corporates	**179,788,620**	**1,589,497**	**178,199,123**	**0.9%**
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	56,319,236	563,286	55,755,950	1.0%
- overdue less than 30 days	366,668	3,667	363,001	1.0%
- overdue more than 31 days and less than 90 days	793,744	7,937	785,807	1.0%
Total loans without individual signs of impairment	**57,479,648**	**574,890**	**56,904,758**	**1.00%**
Loans with individual signs of impairment				
Not impaired loans				
- overdue more than 91 days and less than 180 days	144,301	1,443	142,858	1.0%
- overdue more than 181 days and less than 270 days	23,112	231	22,881	1.0%
Impaired loans:				
- overdue more than 31 days and less than 90 days	46,879	4,918	41,961	10.5%
- overdue more than 91 days and less than 180 days	87,072	9,604	77,468	11.0%
- overdue more than 181 days and less than 270 days	414,121	43,440	370,681	10.5%
Total loans with individual signs of impairment:	**715,485**	**59,636**	**655,849**	**8.3%**
Total loans to small and medium size companies	**58,195,133**	**634,526**	**57,560,607**	**1.1%**
Total loans to corporate customers	**237,983,753**	**2,224,023**	**235,759,730**	**0.9%**

18. Loans to customers (continued)

(a) Credit quality of loans to customers

Loans to retail customers	*Gross loans AMD'000*	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans %*
Mortgage loans				
- not overdue	17,016,614	340,332	16,676,282	2.0%
- overdue less than 30 days	127,398	2,548	124,850	2.0%
- 31-90 days overdue	7,897	158	7,739	2.0%
- 91-180 days overdue	59,768	1,816	57,952	3.0%
- 181-270 days overdue	65,487	1,310	64,177	2.0%
Total mortgage loans	**17,277,164**	**346,164**	**16,931,000**	**2.0%**
Credit cards				
- not overdue	16,075,061	32,150	16,042,911	0.2%
- overdue less than 30 days	60,980	12,259	48,721	20.1%
- 31-90 days overdue	130,120	67,162	62,958	51.6%
- 91-180 days overdue	14,868	10,113	4,755	68.0%
- 181-270 days overdue	86,082	20,246	65,836	23.5%
Total credit cards	**16,367,111**	**141,930**	**16,225,181**	**0.9%**
Business loans				
- not overdue	2,495,719	4,991	2,490,728	0.2%
Total business loans	**2,495,719**	**4,991**	**2,490,728**	**0.2%**
Auto loans				
- not overdue	4,074,131	8,148	4,065,983	0.2%
- overdue less than 30 days	13,306	27	13,279	0.2%
- 31-90 days overdue	3,615	7	3,608	0.2%
- 181-270 days overdue	3,752	8	3,744	0.2%
Total auto loans	**4,094,804**	**8,190**	**4,086,614**	**0.2%**
Consumer loans				
- not overdue	3,015,983	6,032	3,009,951	0.2%
- overdue less than 30 days	3,010	109	2,901	3.6%
- 31-90 days overdue	9,922	2,631	7,291	26.5%
- 91-180 days overdue	17,462	35	17,427	0.2%
Total consumer loans	**3,046,377**	**8,807**	**3,037,570**	**0.3%**
Other loans to retail customers				
- not overdue	276,371	553	275,818	0.2%
- overdue less than 30 days	1,816	4	1,812	0.2%
- 31-90 days overdue	497	1	496	0.2%
Total other loans to retail customers	**278,684**	**558**	**278,126**	**0.2%**
Total loans to retail customers	**43,559,859**	**510,640**	**43,049,219**	**1.2%**
Total loans to customers	**281,543,612**	**2,734,663**	**278,808,949**	**1.0%**

18. Loans to customers (continued)

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans, %*
Loans corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	103,889,849	207,808	103,682,041	0.2%
Total loans without individual signs of impairment	**103,889,849**	**207,808**	**103,682,041**	**0.2%**
Loans with individual signs of impairment				
Not impaired loans				
- 91-180 days overdue	440,970	882	440,088	0.2%
Impaired loans				
- 91-180 days overdue	469,130	158,287	310,843	33.7%
- more than 180 days and less than 270 days	1,295,889	373,691	922,198	28.8%
Total loans with individual signs of impairment	**2,205,989**	**532,860**	**1,673,129**	**24.2%**
Total loans to large corporates	**106,095,838**	**740,668**	**105,355,170**	**0.7%**
Loans to small and medium size companies				
Loans without individual signs of impairment	33,381,670	434,122	32,947,548	1.3%
- overdue less than 30 days	114,369	1,487	112,882	1.3%
- 31-90 days overdue	15,561	202	15,359	1.3%
Total loans without individual signs of impairment	**33,511,600**	**435,811**	**33,075,789**	**1.3%**
Loans with individual signs of impairment				
Not impaired loans				
-91-180 days overdue	159,367	2,072	157,295	1.3%
Total loans with individual signs of impairment	**159,367**	**2,072**	**157,295**	**1.3%**
Total loans to small and medium size companies	**33,670,967**	**437,883**	**33,233,084**	**1.3%**
Total loans to corporate customers	**139,766,805**	**1,178,551**	**138,588,254**	**0.8%**
Loans to retail customers				
Mortgage loans				
Loans without individual signs of impairment	10,185,573	132,412	10,053,161	1.3%
- overdue less than 30 days	21,471	279	21,192	1.3%
- 31-90 days overdue	43,354	564	42,790	1.3%
Total mortgage loans	**10,250,398**	**133,255**	**10,117,143**	**1.3%**
Credit cards				
- not overdue	10,201,235	20,402	10,180,833	0.2%
- overdue less than 30 days	57,927	10,060	47,867	17.4%
- 31-90 days overdue	26,600	9,760	16,840	36.7%
- 91-180 days overdue	19,813	1,592	18,221	8.0%
- 181-270 days overdue	119,128	2,027	117,101	1.7%
Total credit cards	**10,424,703**	**43,841**	**10,380,862**	**0.4%**
Business loans				
- not overdue	5,474,361	16,971	5,457,390	0.3%
- 31-90 days overdue	218,063	676	217,387	0.3%
- 91-180 days overdue	161,388	500	160,888	0.3%
Total business loans	**5,853,812**	**18,147**	**5,835,665**	**0.3%**
Auto loans				
- not overdue	3,334,865	6,670	3,328,195	0.2%
- overdue less than 30 days	13,956	38	13,918	0.3%
- 91-180 days overdue	5,815	16	5,799	0.3%
- 181-270 days overdue	5,352	1,230	4,122	23.0%
Total auto loans	**3,359,988**	**7,954**	**3,352,034**	**0.2%**

18. Loans to customers (continued)

(a) Credit quality of loans to customers

	Gross loans AMD'000	*Impairment allowance AMD'000*	*Net loans AMD'000*	*Impairment allowance to gross loans, %*
Consumer loans				
- not overdue	1,179,331	2,359	1,176,972	0.2%
- overdue less than 30 days	2,474	27	2,447	1.1%
- 91-180 days overdue	1,246	567	679	45.5%
- 181-270 days overdue	631	287	344	45.5%
Total consumer loans	**1,183,682**	**3,240**	**1,180,442**	**0.3%**
Other loans to retail customers				
- not overdue	405,522	811	404,711	0.2%
- overdue less than 30 days	1,651	3	1,648	0.2%
- 31-90 days overdue	457	1	456	0.2%
- 91-180 days overdue	912	707	205	77.5%
Total other loans to retail customers	**408,542**	**1,522**	**407,020**	**0.4%**
Total loans to retail customers	**31,481,125**	**207,959**	**31,273,166**	**0.7%**
Total loans to customers	**171,247,930**	**1,386,510**	**169,861,420**	**0.8%**

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

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment or negative changes in the borrower's markets.

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment have been identified.
In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 0.2% for performing loans to large corporates and 1% for performing loans to small and medium size companies;
- a discount of between 20% and 30% to the originally appraised value if the property pledged is being sold;
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2014 would be up to AMD 2,357,597 thousand lower/higher (2013: AMD 1,385,883 thousand lower/higher).

(ii) Loans to retail customers

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

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- loss migration rates of 0.4% applied in respect of performing credit card loans and 0.2% on performing auto and consumer loans
- historic annual loss rates of 2% applied in respect of performing mortgage loans and 0.2% on performing business loans.

18. Loans to customers (continued)

(a) Key assumptions and judgments for estimating the loan impairment (continued)

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2014 would be up to AMD 1,291,477 thousand lower/higher (2013: AMD 938,195 thousand).

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2014, comprised AMD 230,718 thousand (2013 AMD 167,932 thousand).

(b) Analysis of collateral

(iii) Loans to corporate customers

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables; cash collateral
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The fair value of collateral that the Bank holds relating to loans with individual signs of impairment at 31 December 2014 amounts to AMD 9,104,418 thousand (2013: AMD 3,745,500 thousand).

(b) Analysis of collateral

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

18. Loans to customers (continued)

(iv) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Secured credit card overdrafts are mainly secured by real estate and cars. Other credit card overdrafts are secured by salary. Business loans are secured by real estate and corporate shares. Auto loans are secured by the underlying cars. As of 31 December 2014 approximately 80% of consumer loans are secured by real estate or movable property, 0.47% is secured by salary and cash and 19% are secured by guarantees. Other retail loans are mainly secured by gold.

(v) Repossessed collateral

During the year 2014, the Bank obtained certain assets by taking possession of collateral for loans to corporate customers with a net carrying amount of AMD 420,169 thousand (2013: AMD 254,192 thousand). As at 31 December 2014 and 31 December 2013, the repocessed collateral comprise real estate and is classified as assets held for sale or other assets.

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

(c) Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers who operate in the following economic sectors:

	2014 AMD'000	*2013 AMD'000*
Wholesale trade	40,058,797	26,588,390
Food and beverage	23,325,577	17,698,356
Construction	20,161,498	11,260,473
Finance and investment	19,408,474	10,107
Energy	19,286,065	14,726,727
Agriculture, forestry and timber	18,950,113	3,415,776
Retail trade	18,133,476	15,563,983
Mining/Metallurgy	17,666,644	7,166,914
Hotel service	11,830,145	4,309,739
Real estate	11,276,420	5,080,869
Manufacturing	9,348,465	13,763,426
Transportation	8,972,125	8,484,915
Municipal authorities	4,992,968	2,420,547
Communication services	4,477,959	4,280,314
Other	10,095,027	4,996,269
Loans to retail customers	43,559,859	31,481,125
	281,543,612	**171,247,930**
Impairment allowance	(2,734,663)	(1,386,510)
	278,808,949	**169,861,420**

18. Loans to customers (continued)

(c) Industry and geographical analysis of the loan portfolio (continued)

The geographical concentration of Bank's loans to corporate customers (net loans) is set out below:

	2014 AMD'000	*2013 AMD'000*
Armenia	201,255,671	135,569,907
OECD and EU	17,565,034	1,496,770
Other foreign countries	16,939,025	1,521,577
	235,759,730	**138,588,254**

(d) Significant credit exposures

As at 31 December 2014 the Bank has nine borrowers or groups of connected borrowers (2013: seven), whose loan balances exceed 10% of equity. The exposure on these loans (net of cash collateral received) as at 31 December 2014 is AMD 49,368,323 thousand (2013: AMD 35,921,654 thousand).

(e) Loan maturities

The maturity of the loan portfolio is presented in note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

19. Receivables from letters of credit

	2014 AMD'000	*2013 AMD'000*
Receivables from letters of credit	14,245,057	8,966,815
Impairment allowance	(28,490)	–
	14,216,567	**8,966,815**

No receivables from letters of credit are individually impaired.

As at 31 December 2014 the Bank has one customer (2013: one customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 5,280,350 thousand (2013: AMD 5,720,643 thousand).

Movements in impairment allowance for the year 2014 and 2013 are as follows:

	2014 AMD'000	*2013 AMD'000*
Balance at the beginning of the year	–	–
Net charge	28,490	–
Write-offs	–	–
Balance at the end of the year	**28,490**	–

20. Receivables from finance leases

	2014 AMD'000	2013 AMD'000
Gross investment in finance leases receivable:		
Less than one year	1,183,377	1,204,651
Between one and five years	2,340,276	2,003,213
	3,523,653	**3,207,864**
Unearned finance income	(665,366)	(510,995)
Impairment allowance	(5,717)	–
Net investment in finance leases	**2,852,570**	**2,696,869**
The net investment in finance leases comprises:		
Less than one year	958,002	1,147,449
Between one and five years	1,894,568	1,549,420
	2,852,570	**2,696,869**

As at 31 December 2014 and 31 December 2013 there are no contractually overdue finance lease receivables.

(a) Concentration of receivables from finance leases

As at 31 December 2014 the Bank has no customers whose balances exceed 10% of equity (2013: nil).

Movements in impairment allowance for the year 2014 and 2013 are as follows:

	2014 AMD'000	2013 AMD'000
Balance at the beginning of the year	–	–
Net charge	23,688	–
Write-offs	(17,971)	–
Balance at the end of the year	**5,717**	–

(b) Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in note 31 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

(c) Geographical analysis of the finance lease portfolio

The majority of finance leases are with customers located within the Republic of Armenia.

21. Receivables from factoring

	2014 AMD'000	*2013 AMD'000*
Receivables from factoring	4,489,999	3,575,063
Impairment allowance	(8,980)	–
	4,481,019	**3,575,063**

As at 31 December 2014 the Bank has no customers whose balances exceed 10% of equity (2013: nil).

Movements in impairment allowance for the year 2014 and 2013 are as follows:

	2014 AMD'000	*2013 AMD'000*
Balance at the beginning of the year	–	–
Net charge	8,063	20,860
Write-offs	917	(20,860)
Balance at the end of the year	**8,980**	–

22. Held-to-maturity investments

	2014 AMD'000	*2013 AMD'000*
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government bonds of the Republic of Armenia	819,255	885,566
Eurobonds of the Republic of Armenia	–	–
- Corporate bonds		
International Financial Institutions	–	–
Other	101,413	–
	920,668	**885,566**
Pledged under sale and repurchase agreements		
- Government bonds of the Republic of Armenia	7,193,845	3,361,500
- Eurobonds of the Republic of Armenia	5,952,409	–
- Bonds of international Financial Institutions	767,067	–
- Other	201,541	–
	14,114,862	**3,361,500**

23. Property, equipment and intangible assets

AMD'000	*Leasehold improvement*	*Computers and communication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost/revalued amount						
Balance at 1 January 2014	**1,504,229**	**2,302,955**	**462,518**	**177,848**	**784,702**	**5,232,252**
Additions	121,972	337,583	78,773	12,812	145,692	**696,832**
Disposals/write-offs	–	–	–	(2,225)	(37,086)	**(39,311)**
Balance at 31 Dec 2014	**1,626,201**	**2,640,538**	**541,291**	**188,435**	**893,308**	**5,889,773**
Depreciation and amortization						
Balance at 1 January 2014	**406,326**	**1,294,932**	**207,634**	**149,802**	**279,273**	**2,337,967**
Depreciation and amortization for the year	197,166	333,606	102,052	10,238	117,411	**760,473**
Disposals/write-offs	–	–	–	(2,225)	(37,086)	**(39,311)**
Balance at 31 Dec 2014	**603,492**	**1,628,538**	**309,686**	**157,815**	**359,598**	**3,059,129**
Carrying amount						
At 31 Dec 2014	**1,022,709**	**1,012,000**	**231,605**	**30,620**	**533,710**	**2,830,644**

AMD'000	*Leasehold improvement*	*Computers and communication equipment*	*Fixtures and fittings*	*Motor vehicles*	*Intangible assets*	*Total*
Cost/revalued amount						
Balance at 1 January 2013	**1,183,146**	**1,879,404**	**408,218**	**175,173**	**569,177**	**4,215,118**
Additions	323,182	424,807	83,023	5,433	215,525	**1,051,970**
Disposals/write-offs	(2,099)	(1,256)	(28,723)	(2,758)	–	**(34,836)**
Balance at 31 December 2013	**1,504,229**	**2,302,955**	**462,518**	**177,848**	**784,702**	**5,232,252**
Depreciation and amortization						
Balance at 1 January 2013	**264,721**	**977,774**	**142,893**	**136,578**	**171,511**	**1,693,477**
Depreciation and amortization for the year	143,685	317,279	92,665	15,662	107,762	**677,053**
Disposals/write-offs	(2,080)	(121)	(27,924)	(2,438)	–	**(32,563)**
Balance at 31 December 2013	**406,326**	**1,294,932**	**207,634**	**149,802**	**279,273**	**2,337,967**
Carrying amount						
At 31 December 2013	**1,097,903**	**1,008,023**	**254,884**	**28,046**	**505,429**	**2,894,285**

There are no capitalized borrowing costs related to the acquisition or construction of property or equipment during 2014 (2013: nil).

24. Other assets

	2014 AMD'000	*2013 AMD'000*
Brokerage accounts	346,731	335,696
Restricted accounts with clearing houses	339,475	209,243
Receivables from banking services	247,673	357,810
Total other financial assets	**933,879**	**902,749**
Prepayments to suppliers	911,812	837,810
Repossessed assets	322,435	68,242
Standard bullions of precious metals	200,232	90,710
Inventories	67,539	49,824
Impairment allowance	(65,522)	(65,522)
Other	173,488	75,688
Total other non-financial assets	**1,609,984**	**1,056,752**
Total other assets	**2,543,863**	**1,959,501**

24. Other assets (continued)

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2014 and 2013 are as follows:

	2014 AMD'000	*2013 AMD'000*
Balance at the beginning of the year	65,522	67,080
Net charge	20,171	75,076
Write-offs	(20,171)	(76,634)
Balance at the end of the year	**65,522**	**65,522**

25. Deposits and balances from banks

	2014 AMD'000	*2013 AMD'000*
Liabilities for letters of credit	16,857,511	11,648,205
Short term loans and term deposits from commercial banks	10,292,230	3,218,527
Loans from CBA	2,769,692	1,859,440
Vostro accounts	199,344	185,645
Long term loans and term deposits from commercial banks	85,547	–
	30,204,324	**16,911,817**

According to the agreement the CBA provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at 31 December 2014 the Bank has three banks (2013: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 18,821,471 thousand (2013: AMD 5,749,261 thousand).

26. Amounts payable under repurchase agreements

	2014 AMD'000	*2013 AMD'000*
Amounts due to the CBA	**21,301,407**	**16,013,140**

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

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be re-pledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These securities of AMD 21,207,645 thousand are presented as "pledged under sale and repurchase agreements" in notes 15 and 22. The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay the purchase price for this collateral.

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

The collateral of AMD 1,217,526 thousand pledged for amounts receivable under reverse repurchase agreements (note 17) is re-pledged for amounts payable under repurchase agreements as at 31 December 2014 (2013: 5,910,451).

26. Amounts payable under repurchase agreements (continued)

Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognized in their entirety

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

		Held to maturity		*Available for sale*		
	Transferred financial asset	***Gov. debt securities 2014***	***Other debt securities 2014***	***Gov. debt securities 2014***	***Other debt securities 2014***	***Total 2014***
Carrying amount Assets	Repurchase agreements	13,146,254	968,608	6,896,015	196,768	**21,207,645**
Total		**13,146,254**	**968,608**	**6,896,015**	**196,768**	**21,207,645**
Carrying amount associated liabilities	Repurchase agreements					**21,301,407**
Net position		**–**	**–**	**–**	**–**	**(93,762)**

		Held to maturity		*Available for sale*		*Financial instruments at fair value through profit or loss*	
	Transferred financial asset	***Gov. debt securities 2013***	***Other debt securities 2013***	***Gov. debt securities 2013***	***Other debt securities 2013***	***Other debt securities 2013***	***Total 2013***
Carrying amount Assets	Repurchase agreements	3,361,500	–	5,815,585	–	844,660	**10,021,745**
Total		**3,361,500**	**–**	**5,815,585**	**–**	**844,660**	**10,021,745**
Carrying amount associated liabilities	Repurchase agreements						**16,013,140**
Net position		**–**	**–**	**–**	**–**	**–**	**(5,991,395)**

27. Current accounts and deposits from customers

	2014 AMD'000	***2013 AMD'000***
Current accounts and demand deposits		
- Retail	17,233,728	14,529,399
- Corporate	56,878,290	47,058,444
Term deposits		
- Retail	86,304,747	67,804,636
- Corporate	48,280,166	40,549,672
	208,696,931	**169,942,151**

As at 31 December 2014, the Bank maintained customer deposit balances of AMD 30,441,182 thousand (2013: AMD 6,183,017 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at 31 December 2014, the Bank has ten customers (2013: five customers) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 57,902,264 thousand (2013: AMD 41,035,852 thousand).

28. Other borrowed funds and subordinated borrowings

	2014 AMD'000	*2013 AMD'000*
Borrowings from international and other financial institutions	73,799,775	58,700,073
Borrowings from Government of Armenia	3,826,072	6,691,076
	77,625,847	**65,391,149**
Subordinated borrowings	**15,380,080**	**4,967,435**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2014, the Bank has nine financial institutions (2013: nine), whose balances exceed 10% of equity. These balances as at 31 December 2014 are AMD 72,239,256 thousand (2013: AMD 63,891,692 thousand).

(b) Borrowings from the Government of Armenia

The borrowings from the Government of Armenia include amounts lent from Government of Armenia (CBA is acting as the agent of the Government of Armenia). According to the agreement the borrowings are granted to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

The borrowings are in AMD, bear interest rates of 7.0%-7.8%, are granted for period of up to five years and are to be repaid at maturity.

(c) Subordinated borrowing

As at 31 December 2014 subordinated borrowing represents:

- Borrowing received from a related party (AMD 5,825,503 thousand) maturing on 11 January 2021 and carries an annual interest rate of 6%. The lender has right to demand to transform the loan or any part of it, including accrued interest, into the share capital of the Bank through issuance of additional shares.
- Borrowing received from other financial institution (AMD 9,554,577 thousand) maturing on 23 September 2020 and carries an annual interest rate of 6% + LIBOR. The financial institution has the right to convert 62.5% of subordinated borrowing to ordinary shares.

In case of bankruptcy, the repayment of the subordinated borrowing will be made after repayment in full of all other liabilities of the Bank.

(d) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements.

29. Other liabilities

	2014 AMD'000	*2013 AMD'000*
Payables to staff	1,733,715	832,463
Accrued expenses	372,126	277,835
Other financial liabilities	552,323	974,537
Total other financial liabilities	**2,658,164**	**2,084,835**
Deferred income	10,320	9,226
Other taxes payable	152,772	119,216
Total other non-financial liabilities	**163,092**	**128,442**
Total other liabilities	**2,821,256**	**2,213,277**

30. Share capital and treasury shares

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 79,524 ordinary shares (2013: 79,524). All shares have a nominal value of AMD 320 thousand and are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Revaluation reserve for available-for-sale financial assets

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

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia.

According to decisions of Meeting of Shareholders dated April 22, 2014 and December 27 2014, dividends declared and paid by the Bank amounted to AMD 2,950,000 thousand (2013: AMD 4,500,000 thousand). Dividends per share amounted to AMD 37.096 thousand (2013: 56.587 thousand).

31. Risk management

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

(a) Risk management policies and procedures

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

The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Center monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

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

31. Risk management (continued)

(b) Market risk (continued)

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Asset and Liabilites Department in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Non-interest bearing*	*Carrying amount*
31 December 2014							
Assets							
Cash and cash equivalents	–	–	–	–	–	68,115,676	68,115,676
Available-for-sale financial assets	174,800	53,529	41,410	2,540,545	4,694,822	106,458	7,611,564
Loans and advances to banks	–	–	–	–	–	1,157,853	1,157,853
Amounts receivable under reverse repurchase agreements	1,526,358	–	–	–	–	–	1,526,358
Loans to customers	39,627,977	26,265,045	42,391,158	137,469,519	29,891,193	3,164,057	278,808,949
Receivables from letters of credit	413,048	163,865	919,180	12,720,474	–		14,216,567
Receivables from finance leases	237,699	250,746	471,045	1,804,744	88,336	–	2,852,570
Receivables from factoring	3,201,754	1,091,531	187,734	–	–	–	4,481,019
Held-to-maturity investments	1,867,550	952,514	1,061,373	5,121,613	6,032,480		15,035,530
	47,049,186	**28,777,230**	**45,071,900**	**159,656,895**	**40,706,831**	**72,544,044**	**393,806,086**
Liabilities							
Deposits and balances from banks	(9,639,684)	(4,482,783)	(3,893,266)	(10,812,328)	(1,376,263)	–	(30,204,324)
Amounts payable under repurchase agreements	(21,301,407)	–	–	–	–	–	(21,301,407)
Current accounts and deposits from customers	(57,243,647)	(23,132,957)	(44,728,848)	(9,373,482)	(105,979)	(74,112,018)	(208,696,931)
Subordinated borrowings	(9,680,440)				(5,699,640)		(15,380,080)
Other borrowed funds	(21,693,866)	(40,726,091)	(13,772,286)	(1,433,604)	–	–	(77,625,847)
	(119,559,044)	**(68,341,831)**	**(62,394,400)**	**(21,619,414)**	**(7,181,882)**	**(74,112,018)**	**(353,208,589)**
Effect of derivatives	11,928,223	–	(1,889,085)	(10,039,138)	–	–	–
Net position	**(60,581,635)**	**(39,564,601)**	**(19,211,585)**	**127,998,343**	**33,524,949**	**(1,567,974)**	**40,597,497**

31. Risk management (continued)

(b) Market risk (continued)

AMD'000	*Less than 3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*More than 5 years*	*Non-interest bearing*	*Carrying amount*
31 December 2013							
Assets							
Cash and cash equivalents	–	–	–	–	–	98,815,692	98,815,692
Financial instruments at fair value through profit or loss	–	–	888,066	–	–	–	888,066
Available-for-sale financial assets	148,632	759,006	1,042,617	6,356,223	932,540	102,467	9,341,485
Loans and advances to banks	2,030,799	–	–	–	–	1,075,684	3,106,483
Amounts receivable under reverse repurchase agreements	8,441,159	–	–	–	–	–	8,441,159
Loans to customers	17,888,492	14,873,614	21,430,308	102,733,454	12,935,552	–	169,861,420
Receivables from letters of credit	72,350	130,376	572,201	8,191,888	–	–	8,966,815
Receivables from finance leases	376,714	308,836	461,899	1,549,420	–	–	2,696,869
Receivables from factoring	3,261,147	311,752	2,164	–	–	–	3,575,063
Held-to-maturity investments	136,405	621,453	769,725	2,633,869	85,614	–	4,247,066
	32,355,698	**17,005,037**	**25,166,980**	**121,464,854**	**13,953,706**	**99,993,843**	**309,940,118**
Liabilities							
Deposits and balances from banks	(3,368,471)	(943,251)	(632,845)	(10,141,775)	(1,825,475)	–	(16,911,817)
Amounts payable under repurchase agreements	(16,013,140)	–	–	–	–	–	(16,013,140)
Current accounts and deposits from customers	(43,045,451)	(28,532,536)	(31,312,320)	(5,373,162)	(90,839)	(61,587,843)	(169,942,151)
Subordinated borrowings	(99,755)	–	–	–	(4,867,680)	–	(4,967,435)
Other borrowed funds	(15,222,328)	(39,156,236)	(2,197,200)	(6,964,848)	(1,850,537)	–	(65,391,149)
	(77,749,145)	**(68,632,023)**	**(34,142,365)**	**(22,479,785)**	**(8,634,531)**	**(61,587,843)**	**(273,225,692)**
Effect of derivatives	15,027,118	(1,613,341)	(1,613,341)	(11,800,436)	–	–	–
Net position	**(30,366,329)**	**(53,240,327)**	**(10,588,726)**	**87,184,633**	**5,319,175**	**38,406,000**	**36,714,426**

Average interest rates

Interest rates for interest bearing assets and liabilities are an approximation of the yields to maturity of these assets and liabilities, except for loans included in other borrowed funds of AMD 71,166,443 thousand (AMD 52,676,660 thousand), the interest rates on which are repriced on a semi-annual basis based on LIBOR as follows:

Interest rate repricing date	*2014 AMD'000*	*Interest rate repricing date*	*2013 AMD'000*
8 January 2015	4,745,819	15 February 2014	10,059,402
15 February 2015	9,665,478	15 March 2014	5,090,379
16 February 2015	9,253,770	25 March 2014	101,582
26 February 2015	7,240,371	15 April 2014	14,156,424
16 March 2015	478,966	16 April 2014	304,104
2 April 2015	382,695	17 April 2014	4,971,498
15 April 2015	15,429,293	18 May 2014	2,222,445
16 April 2015	119,962	27 May 2014	806,664
17 April 2015	5,034,927	29 May 2014	8,086,665
12 May 2015	717,211	16 June 2014	6,877,497
17 May 2015	10,220		**52,676,660**
18 May 2015	182,320		
27 May 2015	763,632		
29 May 2015	6,355,853		
10 June 2015	3,647,272		
16 June 2015	7,138,654		
	71,166,443		

31. Risk management (continued)

(b) Market risk (continued)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 31 December 2013.

	2014 Average effective interest rate, %			*2013 Average effective interest rate, %*		
	AMD	***USD***	***Other currencies***	***AMD***	***USD***	***Other currencies***
Interest bearing assets						
Financial instruments at fair value through profit or loss	–	–	–	–	10.22%	–
Available-for-sale financial assets	11.90%	5.73%	–	12.96%	–	–
Loans and advances to banks	–	–	–	–	4.50%	–
Amounts receivable under reverse repurchase agreements	24.00%	–	–	8.64%	6.69%	–
Loans to customers	14.54%	10.54%	10.14%	14.09%	11.43%	11. 63%
Receivables from finance leases	15.19%	11.31%	11.03%	15.27%	11.76%	12.00%
Receivables from factoring	15.73%	11.40%	12.33%	15.90%	11.50%	12.22%
Held-to-maturity investments	12.19%	5.47%	–	13.17%	–	–
Interest bearing liabilities						
Deposits and balances from banks	6.00%	3.23%	2.52%	7.0%	3.98%	–
Amounts payable under repurchase agreements	20%	–	–	7.82%	–	–
Current accounts and deposits from customers						
- Term deposits	9.17%	6.23%	4.53%	10.40%	6.14%	3.81%
Subordinated borrowings		6.18%	–		6.00%	–
Other borrowed funds	9.74%	5.50%	–	8.83%	4.78%	–

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014 AMD'000	***2013 AMD'000***
100 bp parallel fall	304,775	616,186
100 bp parallel rise	(304,775)	(616,186)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 2.18% symmetrical fall or rise in all yield curves is as follows:

	2014		***2013***	
	Net profit or loss AMD'000	***Equity AMD'000***	***Net profit or loss AMD'000***	***Equity AMD'000***
2.18% parallel fall	–	618,072	–	517,096
2.18% parallel rise	–	(618,072)	–	(517,096)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

31. Risk management (continued)

(b) Market risk (continued)

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

	USD AMD'000	*EUR AMD'000*	*Other currencies AMD'000*	*Total AMD'000*
Assets				
Cash and cash equivalents	8,547,326	6,840,148	1,882,493	**17,269,967**
Available-for-sale financial assets	3,355,802	–	–	**3,355,802**
Loans and advances to banks	318,948	11,549	36,842	**367,339**
Loans to customers	233,285,293	8,698,674	–	**241,983,967**
Receivables from letters of credit	7,617,134	6,627,922	–	**14,245,056**
Receivables from finance leases	1,595,526	708,369	–	**2,303,895**
Receivables from factoring	1,775,182	51,641	12,049	**1,838,872**
Held-to-maturity investments	5,952,408	–	–	**5,952,408**
Other assets	836,751	108,293	213,153	**1,158,197**
Total assets	**263,284,370**	**23,046,596**	**2,144,537**	**288,475,503**
Liabilities				
Financial instruments at fair value through profit or loss	161,487	–	–	**161,487**
Deposits and balances from banks	17,092,270	10,333,760	106	**27,426,136**
Current accounts and deposits from customers	147,760,605	24,193,947	2,144,104	**174,098,656**
Subordinated borrowings	15,478,987	–	–	**15,478,987**
Other borrowed funds	65,737,532	–	–	**65,737,532**
Other liabilities	327,838	82,892	6,592	**417,322**
Total liabilities	**246,558,719**	**34,610,599**	**2,150,802**	**283,320,120**
Net position	**16,725,651**	**(11,564,003)**	**(6,265)**	**5,155,383**
Effect of derivatives	(13,133,572)	11,549,400	19,122	**(1,565,050)**
Net position	**3,592,079**	**(14,603)**	**12,857**	**3,590,333**

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

	USD AMD'000	*EUR AMD'000*	*Other currencies AMD'000*	*Total AMD'000*
Assets				
Cash and cash equivalents	45,299,786	12,694,235	1,499,116	**59,493,137**
Available-for-sale financial assets	859,582	–	–	**859,582**
Loans and advances to banks	2,365,962	11,191	9,330	**2,386,483**
Amounts payable under reverse repurchase agreements	469,070	–	–	**469,070**
Loans to customers	132,737,530	3,117,711	**–**	**135,855,241**
Receivables from finance leases	1,863,642	345,849	–	**2,209,491**
Receivables from letters of credit	2,951,861	6,014,954	–	**8,966,815**
Receivables from factoring	1,446,332	27,700	289,810	**1,763,842**
Other assets	784,542	7,812	28,865	**821,219**
Total assets	**188,778,307**	**22,219,452**	**1,827,121**	**212,824,880**
Liabilities				
Deposits and balances from banks	7,163,693	6,078,460	–	**13,242,153**
Current accounts and deposits from customers	122,949,027	16,309,503	1,901,936	**141,160,466**
Subordinated debt	4,967,435	–	–	**4,967,435**
Other borrowed funds	54,000,649	–	–	**54,000,649**
Other liabilities	382,832	44,857	67,877	**495,566**
Total liabilities	**189,463,636**	**22,432,820**	**1,969,813**	**213,866,269**
Net position	**(685,329)**	**(213,368)**	**(142,692)**	**(1,041,389)**

31. Risk management (continued)

(b) Market risk (continued)

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

	2014	***2013***
	Profit or loss AMD'000	***Profit or loss AMD'000***
19.10% appreciation of AMD against USD	(686,087)	68,533
20.71% appreciation of AMD against EUR	3,024	21,337

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

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee and Risk Management Center, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing control and monitoring of loans and other credit exposures.

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

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Subdivisions.

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

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

31. Risk management (continued)

(c) Credit risk (continued)

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

	2014 AMD'000	*2013 AMD'000*
Assets		
Cash and cash equivalents	58,548,909	87,860,064
Financial instruments at fair value through profit or loss	–	888,066
Available-for-sale financial assets	7,505,106	9,239,018
Loans and advances to banks	1,157,853	3,106,483
Amounts receivable under reverse repurchase agreements	1,526,358	8,441,159
Loans to customers	278,808,949	169,861,420
Receivables from letters of credit	14,216,567	8,966,815
Receivables from finance leases	2,852,570	2,696,869
Receivables from factoring	4,481,019	3,575,063
Held-to-maturity investments	15,035,530	4,247,066
Other financial assets	933,879	902,749
Total maximum exposure	**385,066,740**	**299,784,772**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 33.

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

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

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

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

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

31. Risk management (continued)

(c) Credit risk (continued)

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

Types of financial assets/liabilities AMD'000	*Gross amounts of recognized financial asset/liability*	*Gross amount of recognized financial liability/asset offset in the statement of financial position*	*Net amount of financial assets/liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Amounts receivable under reverse repurchase agreements	1,526,358	–	1,526,358	(1,590,527)	–	(64,169)
Total financial assets	**1,526,358**	**–**	**1,526,358**	**(1,590,527)**	**–**	**(64,169)**
Amounts payable under repurchase agreements	(21,301,407)	–	(21,301,407)	21,207,645	–	(93,762)
Total financial liabilities	**(21,301,407)**	**–**	**(21,301,407)**	**21,207,645**	**–**	**(93,762)**

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

Types of financial assets/liabilities AMD'000	*Gross amounts of recognized financial asset/liability*	*Gross amount of recognized financial liability/asset offset in the statement of financial position*	*Net amount of financial assets/liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Amounts receivable under reverse repurchase agreements	8,441,159	–	8,441,159	(8,098,541)	–	342,618
Total financial assets	**8,441,159**	**–**	**8,441,159**	**(8,098,541)**	**–**	**342,618**
Amounts payable under repurchase agreements	(16,013,140)	–	(16,013,140)	10,021,745	–	(5,991,395)
Total financial liabilities	**(16,013,140)**	**–**	**(16,013,140)**	**10,021,745**	**–**	**(5,991,395)**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortized cost basis.

(d) Liquidity risk

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

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

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

31. Risk management (continued)

(d) Liquidity risk (continued)

The liquidity management policy requires:

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

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment.
The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Total gross amount (inflow) outflow*	*Carrying amount*
Non-derivative liabilities							
Deposits and balances from banks	1,666,333	8,127,790	4,635,448	3,895,229	13,864,878	**32,189,678**	30,204,324
Amounts payable under repurchase agreements	21,301,407	–	–	–	–	**21,301,407**	21,301,407
Current accounts and deposits from customers	107,361,359	25,767,626	24,417,387	46,573,584	10,476,044	**214,596,000**	208,696,931
Subordinated borrowing	78,322	439,838	234,965	469,931	19,375,239	**20,598,295**	15,380,080
Other borrowed funds	383,576	2,870,651	10,015,491	25,677,346	54,772,870	**93,719,934**	77,625,847
Other financial liabilities	212,486	2,344,655	101,023	–	–	**2,658,164**	2,658,164
Derivative liabilities							
- Inflow	–	–	–	–	(37,178)	**(37,178)**	(37,178)
- Outflow	–	311,654	–	348,250	51,007	**710,911**	710,910
Total financial liabilities	**131,003,483**	**39,862,214**	**39,404,314**	**76,964,340**	**98,502,860**	**385,737,211**	**356,540,485**
Credit related commitments	**25,964,464**	**–**	**–**	**–**	**–**	**25,964,464**	**25,964,464**

31. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Total gross amount (inflow) outflow*	*Carrying amount*
Non-derivative liabilities							
Deposits and balances from banks	2,218,568	989,096	673,459	1,264,909	17,775,673	**22,921,705**	16,911,817
Amounts payable under repurchase agreements	16,013,140	–	–	–	–	**16,013,140**	16,013,140
Current accounts and deposits from customers	92,209,579	12,565,952	28,863,859	31,886,683	5,646,850	**171,172,923**	169,942,151
Subordinated borrowing	–	147,680	–	161,892	6,285,573	**6,595,145**	4,967,435
Other borrowed funds	23,187	2,099,381	5,341,688	6,967,707	61,258,233	**75,690,196**	65,391,149
Other financial liabilities	596,676	1,469,059	19,100	–	–	**2,084,835**	2,084,835
Derivative liabilities							
- Inflow	–	–	–	–	(58,685)	**(58,685)**	(58,685)
- Outflow	–	92,693	–	78,387	121,765	**292,845**	292,845
Total financial liabilities	**111,061,150**	**17,363,861**	**34,898,106**	**40,359,578**	**91,029,409**	**294,712,104**	**275,544,687**
Credit related commitments	**20,224,113**	**–**	**–**	**–**	**–**	**20,224,113**	**20,224,113**

The maturity analysis in the table above and in the table below does not reflect the historical stability of current accounts. Their repayment has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in the period less than three months in the tables.

Included in due to customers in the table above and in the table below are time deposits of individuals. In accordance with Armenia's legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. These deposits are classified in the table above in accordance with their stated maturity dates.

31. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	68,115,676	–	–	–	–	–	–	**68,115,676**
Available-for-sale financial assets	–	174,800	94,938	2,540,546	4,694,822	106,458	–	**7,611,564**
Loans and advances to banks	515,026		–	–	–	642,827	–	**1,157,853**
Amounts receivable under reverse repurchase agreements	1,526,358	–	–	–	–	–	–	**1,526,358**
Loans to customers	23,724,390	15,903,586	68,656,203	137,469,520	29,891,193		3,164,057	**278,808,949**
Receivables from letters of credit	64,711	319,847	1,083,045	12,748,964	–	–	–	**14,216,567**
Receivables from finance leases	78,448	159,251	721,791	1,804,744	88,336	–	–	**2,852,570**
Receivables from factoring	1,473,248	1,728,506	1,279,265	–	–	–	–	**4,481,019**
Held-to-maturity investments	–	1,867,550	2,013,887	5,121,613	6,032,480		–	**15,035,530**
Assets held for sale	–	–	420,927	–	–	–	–	**420,927**
Deferred tax asset	–	–	–	–	–	142,618	–	**142,618**
Property, equipment and intangible assets	–	–	–	–	–	2,830,644	–	**2,830,644**
Other assets	743,029	945,102	516,257	–		339,475		**2,543,863**
Total assets	**96,240,886**	**21,098,642**	**74,786,313**	**159,685,387**	**40,706,831**	**4,062,022**	**3,164,057**	**399,744,138**
Liabilities								
Financial instruments at fair value through profit or loss	–	311,654	348,250	13,828	–	–	–	**673,732**
Amounts payable under repurchase agreements	21,301,407	–	–	–	–	–	–	**21,301,407**
Deposits and balances from banks	1,585,656	8,054,028	8,376,049	10,812,328	1,376,263	–	–	**30,204,324**
Current accounts and deposits from customers	106,658,123	24,697,543	67,861,804	9,373,482	105,979	–	–	**208,696,931**
Subordinated borrowing	–	283,194			15,096,886	–	–	**15,380,080**
Other borrowed funds	–	2,087,516	32,190,033	36,786,752	6,561,546	–	–	**77,625,847**
Current tax liability	–	–	685,795	–	–	–	–	**685,795**
Other liabilities	396,920	2,332,649	91,687	–	–	–	–	**2,821,256**
Total liabilities	**129,942,106**	**37,766,584**	**109,553,618**	**56,986,390**	**23,140,674**	–	–	**357,389,372**
Net position	**(33,701,220)**	**(16,667,942)**	**(34,767,305)**	**102,698,997**	**17,566,157**	**4,062,022**	**3,164,057**	**42,354,766**

31. Risk management (continued)

(d) Liquidity risk (continued)

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

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	98,815,692	–	–	–	–	–	–	**98,815,692**
Financial instruments at fair value through profit or loss	–	–	888,066	–	–	–	–	**888,066**
Available-for-sale financial assets	42,243	106,389	1,801,623	6,356,223	932,540	102,467	–	**9,341,485**
Loans and advances to banks	2,030,799	–	–	–	–	1,075,684	–	**3,106,483**
Amounts receivable under reverse repurchase agreements	8,080,261	360,898	–	–	–	–	–	**8,441,159**
Loans to customers	6,401,003	10,109,963	36,303,922	102,733,454	12,935,552	–	1,377,526	**169,861,420**
Receivables from letters of credit	72,350	–	702,577	8,191,888	–	–	–	**8,966,815**
Receivables from finance leases	135,938	240,776	770,735	1,549,420	–	–	–	**2,696,869**
Receivables from factoring	1,631,194	1,629,953	313,916	–	–	–	–	**3,575,063**
Held-to-maturity investments	37,319	99,086	1,391,178	2,633,869	85,614	–	–	**4,247,066**
Assets held for sale	–	–	254,192	–	–	–	–	**254,192**
Property, equipment and intangible assets	–	–	–	–	–	2,894,285	–	**2,894,285**
Other assets	940,253	319,807	344,975	53,718	–	300,748	–	**1,959,501**
Total assets	**118,187,052**	**12,866,872**	**42,771,184**	**121,518,572**	**13,953,706**	**4,373,184**	**1,377,526**	**315,048,096**
Liabilities								
Financial instruments at fair value through profit or loss	–	92,693	19,702	121,765	–	–	–	**234,160**
Amounts payable under reverse repurchase agreements	16,013,140	–	–	–	–	–	–	**16,013,140**
Deposits and balances from banks	2,187,359	1,181,112	1,576,096	10,141,775	1,825,475	–	–	**16,911,817**
Current accounts and deposits from customers	92,172,932	12,460,362	59,844,856	5,373,162	90,839	–	–	**169,942,151**
Subordinated borrowing	–	99,755	–	–	4,867,680	–	–	**4,967,435**
Other borrowed funds	–	1,978,416	11,776,282	44,423,145	7,213,306	–	–	**65,391,149**
Current tax liability	–	–	502,824	–	–	–	–	**502,824**
Deferred tax liabilities	–	–	–	–	–	166,410	–	**166,410**
Other liabilities	1,540,000	654,177	19,100	–	–	–	–	**2,213,277**
Total liabilities	**111,913,431**	**16,466,515**	**73,738,860**	**60,059,847**	**13,997,300**	**166,410**	**–**	**276,342,363**
Net position	**6,273,621**	**(3,599,643)**	**(30,967,676)**	**61,458,725**	**(43,594)**	**4,206,774**	**1,377,526**	**38,705,733**

31. Risk management (continued)

(d) Liquidity risk (continued)

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities as at 31 December and during the reporting period are as follows:

	2014 AMD'000 Unaudited	*2013 AMD'000 Unaudited*
At 31 December	93%	171%
Average for December	94%	171%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA.

32. Capital management

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

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

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

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

The following table shows the composition of the capital position calculated in accordance with the requirements of the Central Bank of Armenia, as at 31 December:

	2014 AMD'000 Unaudited	*2013 AMD'000 Unaudited*
Tier 1 capital		
Share capital	25,447,680	25,447,680
Share premium	28,571	28,571
General reserve	4,127,146	3,817,146
Retained earnings	11,508,621	7,733,315
Deductions	(1,656,244)	(1,416,396)
Total tier 1 capital	**39,455,774**	**35,610,316**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	(132,315)	417,522
Subordinated borrowing (principal)	15,199,040	4,867,680
Total tier 2 capital	**15,066,725**	**5,285,202**
Total capital	**54,522,499**	**40,895,518**
Total risk weighted assets	**398,811,974**	**279,714,776**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**13.7%**	**14.6%**

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

33. Commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	2014 AMD'000	***2013 AMD'000***
Contracted amount		
Guarantees and letters of credit	11,188,074	7,485,946
Credit card commitments	6,698,182	6,634,532
Loan and credit line commitments	6,163,643	4,757,613
Undrawn overdraft facilities	1,914,565	1,346,022
	25,964,464	**20,224,113**

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

34. Operating leases

(a) Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2014 AMD'000	***2013 AMD'000***
Less than 1 year	831,417	719,551
Between 1 and 5 years	2,820,327	1,567,969
More than 5 years	830,885	1,036,873
	4,482,629	**3,324,393**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

35. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. As of December 31, 2014 the Bank has up to AMD 6,950,100 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of accidents on the Bank's property or related to operations.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

35. Contingencies (continued)

(c) Taxation contingencies

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

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

36. Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 100% of the share capital. The party with ultimate control over the Bank is Ruben Vardanyan.

No publicly available financial statements are produced by the Bank's parent company.

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

Total remuneration included in personnel expenses for the year ended 31 December are as follows:

	2014 AMD'000	*2013 AMD'000*
Short-term employee benefits	1,913,379	1,592,323

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

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

	2014 AMD'000	*Average interest rate, %*	*2013 AMD'000*	*Average interest rate, %*
Statement of financial position				
Loans issued	567,065	6.5%	537,230	6.8%
Other asset	1,503	0.0%	–	0.0%
Deposits received	1,119,864	7.0%	1,372,753	7.9%
Guarantees	33,248	0.0%	47,979	0.0%

The loans and guarantees are in Armenian Drams and repayable by 2023.

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

	2014 AMD'000	*2013 AMD'000*
Profit or loss		
Interest income	32,130	27,790
Interest expense	(66,216)	(100,303)

36. Related party transactions (continued)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the quarter ended 31 December 2014 with other related parties are as follows:

	Parent company		*Other subsidiaries of the parent company*		*Entities under common control and Other related parties*		
	AMD'000	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*Total AMD'000*
Statement of financial position							
Assets							
Loans to customers	–	–	–	–	2,440,124	8.1%	**2,440,124**
Other asset	–	–	–	–	1,197	0.0%	**1,197**
Liabilities							
Current accounts and deposits from customers							
- Current accounts and demand deposits	52,828	0.0%	467,688	0.0%	9,353,839	0.0%	**9,874,355**
- Term deposits	–		66,680	3.9%	516,769	6.6%	**583,449**
Other liabilities	–	–	7,000	0.0%	593	0.0%	**7,593**
Subordinated borrowing	–	–	–	–	5,825,503	6.0%	**5,825,503**
Items not recognised in the statement of financial position							
Guarantees given	–	–	15,225	–	20,211	0.0%	**35,436**
Profit (loss)							
Interest income	13,170	–	–	–	7,960	–	**21,130**
Interest expense	–	–	(7,454)	–	(345,234)	–	**(352,688)**
General administrative expenses	–	–	–	–	(8,077)	–	**(8,077)**

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

	Parent company		*Other subsidiaries of the parent company*		*Entities under common control and other*		
	AMD'000	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*AMD'000*	*Average interest rate, %*	*Total AMD'000*
Statement of financial position							
Assets							
Loans to customers							
- Principal balance	–	–	–	–	28,877	10.4%	28,877
Liabilities							
Current accounts and deposits from customers							
- Current accounts and demand deposits	68,791	0.0%	408,822	0.0%	1,094,855	0.0%	1,572,468
- Term deposits	–	–	584,636	3.4%	4,184,324	1.9%	4,768,960
Subordinated borrowing	–	–	–	–	4,967,435	6.0%	4,967,435
Items not recognised in the statement of financial position							
Guarantees given	–	–	–	–	82,466	0.0%	82,466
Profit (loss)							
Interest income	–	–	3,870	–	243,068	–	246,938
Interest expense	(595)	–	(22,323)	–	(147,742)	–	(170,660)
General administrative expenses	–	–	(18,080)	–	(225,699)	–	(243,779)

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

(a) Accounting classifications and fair values

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale, loans to customers and held-to-maturity investments approximate their carrying values. As at 31 December 2014 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 106,458 thousand (2013: AMD 102,467 thousand) cannot be determined.

The table below sets out the carrying amounts and fair values of loans to customers and held-to-maturity investments as at 31 December 2014:

	Carrying amount AMD'000	*Fair value AMD'000*
Loans to customers	278,808,949	276,720,071
Held-to-maturity investments	15,035,530	14,703,551
Total	**293,844,479**	**291,423,622**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

	Carrying amount AMD'000	*Fair value AMD'000*
Loans to customers	169,861,420	169,861,420
Held-to-maturity investments	4,247,066	4,464,917
Total	**174,108,486**	**174,326,337**

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

(a) Accounting classifications and fair values (continued)

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

- discount rates of 3.5% and 11.6%-16.4% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively;
- discount rates of 5.5%-12% are used for discounting future cash flows for liabilities.

(b) Fair value hierarchy

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

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

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

AMD'000	*Level 1*	*Level 2*	*Total*
Financial instruments at fair value through profit or loss			
- Derivative assets	–	866,172	**866,172**
- Derivative liabilities	–	(1,539,904)	**(1,539,904)**
Available-for-sale financial assets			
- Debt instruments	–	7,505,106	**7,505,106**
	–	**6,831,374**	**6,831,374**

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

AMD'000	*Level 1*	*Level 2*	*Total*
Financial instruments at fair value through profit or loss			
- Derivative assets	–	888,066	**888,066**
- Derivative liabilities	–	(234,160)	**(234,160)**
Available-for-sale financial assets			
- Debt instruments	–	9,239,018	**9,239,018**
	–	**9,892,924**	**9,892,924**

Fair value of financial instruments not measured at fair value at 31 December 2014, but for which fair value is disclosed are attributed to Level 2 fair value hierarchy.