



Ameriabank cjsc

Financial Statements

For the second quarter of 2016

Contents

Statement of profit or loss and other comprehensive income	3
Statement of financial position	4
Statement of cash flows	5
Statement of changes in equity	6
Notes to the financial statements	7

Statement of comprehensive income
30-Jun-2016

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	Note	01/04/2016- 30/06/2016 (unaudited)	01/01/2016- 30/06/2016 (unaudited)	01/04/2015- 30/06/2015 (unaudited)	01/01/2015- 30/06/2015 (unaudited)
Interest income	4	10,166,639	20,243,093	8,458,555	17,084,540
Interest expenses	4	(6,540,917)	(13,211,225)	(4,805,610)	(9,670,225)
Net interest income		3,625,722	7,031,868	3,652,945	7,414,315
Fee and commission income	5	691,284	1,316,631	600,635	1,154,693
Fee and commission expense	6	(143,347)	(275,432)	(124,146)	(233,544)
Net fee and commission income		547,937	1,041,199	476,489	921,149
Net profit/loss on financial instruments at fair value through profit or loss	7	132,420	(113,290)	(235,511)	(1,484,023)
Net foreign exchange income	8	435,105	1,100,178	885,644	2,636,944
Net gain on available-for-sale financial assets		41,766	54,133	(7,698)	(20,226)
Other operating income	9	445,637	758,584	822,740	1,561,750
Other operating expense	9	(373,288)	(681,654)	(313,564)	(641,202)
Operating income		4,855,299	9,191,018	5,281,045	10,388,707
Impairment reversals (losses)	10	(1,313,993)	(2,174,178)	(1,038,886)	(2,253,191)
Personnel expenses		(1,404,049)	(2,556,879)	(1,315,864)	(2,610,116)
Other general administrative expenses	11	(990,724)	(1,779,760)	(781,499)	(1,513,807)
Profit before income tax		1,146,533	2,680,201	2,144,796	4,011,593
Income tax expense	12	(198,268)	(536,040)	(599,297)	(995,366)
Profit for the period		948,265	2,144,161	1,545,499	3,016,227
Other comprehensive income, net of income tax					
Increase/decrease in revaluation reserve of financial assets		361,957	487,896	1,429	(68,707)
Other comprehensive income for the period, net of income tax		361,957	487,896	1,429	(68,707)
Total comprehensive income for the period		1,310,222	2,632,057	1,546,928	2,947,520

Validation date 15.07.16

Acting General Director-Chairman of the Management Board

Gevorg Tarumyan

Chief Accountant

Gohar Khachatryan



Statement of Financial Position
30-Jun-2016

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	Note	30/06/2016 (unaudited)	31/12/2015 (audited)
Assets			
Cash and cash equivalents	13	111,746,087	142,713,317
Banking standardized bullions of precious metals		533,357	77,973
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	562,390	465,303
Available-for-sale financial assets			
- Held by the Bank	15	11,732,114	4,963,052
- Pledged under sale and repurchase agreements	15	3,377,057	5,315,549
Loans and advances to banks	16	10,989,355	8,172,675
Amounts receivable under reverse repurchase agreements	17	8,170,012	5,980,477
Loans to customers	18	330,472,608	305,613,716
Receivables from letters of credit	19	9,115,485	8,730,005
Receivables from finance leases	20	2,415,432	2,099,464
Receivables from factoring	21	6,718,317	5,447,954
Held-to-maturity investments			
- Held by the Bank	22	8,605,506	4,673,844
- Pledged under sale and repurchase agreements	22	9,491,521	14,896,861
Property, equipment and intangible assets	23	3,199,091	3,195,703
Current tax asset	12	2,012,095	1,090,585
Other assets	24	3,020,725	2,437,210
Total assets		522,161,152	515,873,688
Liabilities			
Financial instruments at fair value through profit or loss	14	295,701	582,560
Amounts payable under repurchase agreements		12,529,492	19,004,763
Deposits and balances from banks	25	23,219,074	21,214,531
Current accounts and deposits from customers	26	293,023,237	294,012,140
Debt securities issue	27	16,799,945	
Subordinated borrowings	28	40,120,231	39,721,324
Other borrowed funds	28	72,660,436	78,383,861
Deferred tax liabilities	12	1,137,260	479,244
Other liabilities	29	2,111,843	3,158,103
Total liabilities		461,897,219	456,556,526
Equity			
Share capital	30	32,087,360	32,087,360
Share premium		7,755,179	7,755,179
Revaluation reserve		236,587	(251,309)
Retained earnings		20,184,807	19,725,932
Total equity		60,263,933	59,317,162
Total liabilities and equity		522,161,152	515,873,688

Validation date 15.07.16

Acting General Director-Chairman of the Management Board

Gevorg Tarumyan

Chief Accountant

Gohar Khachatryan



Statement of cash flows
30-Jun-2016

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	01/01/2016- 30/06/2016 (unaudited)	01/01/2015- 30/06/2015 (unaudited)
Cash flow from operational activities	x	x
Interests receipts	19,628,836	16,154,998
Interests payments	(10,608,014)	(9,928,427)
Fee and commissions receipts	1,316,647	1,154,979
Fee and commissions payments	(275,432)	(233,544)
Net receipts from available-for-sale financial assets	205,755	159,678
Net receipts from foreign exchange	1,127,171	1,048,676
Other income/expenses	78,016	920,547
Salaries and other payments to employees	(3,796,484)	(3,943,933)
Other general administrative expense payments	(1,385,477)	(1,153,059)
Decrease (Increase) in operating assets, including:		
Financial instruments at fair value through profit or loss	(95,255)	238
Loans and advances to banks	(3,382,511)	(4,416,318)
Amounts receivable under reverse repurchase agreements	(2,205,332)	(1,905,530)
Loans to customers	(29,658,166)	25,027,379
Receivables from finance leases	(220,114)	412,826
Receivables from letters of credit	(649,018)	3,426,742
Receivables from factoring	(1,358,447)	630,842
Other assets	(1,038,054)	(312,128)
Increase (Decrease) in other operating liabilities, including:		
Financial instruments at fair value through profit or loss	(551,221)	(1,431,451)
Deposits and balances from banks	2,468,177	(4,686,262)
Amounts payable under repurchase agreements	(6,475,679)	(2,778,089)
Current accounts and deposits from customers	(571,546)	6,205,131
Other liabilities	205,219	13,558
Net cash from (used in) operating activities before income tax paid	(37,240,928)	24,366,853
Income tax paid	(930,000)	(1,540,000)
Net cash flow from operational activities after profit tax	(38,170,928)	22,826,853
Net cash flow from investing activities	x	x
Purchases of property and equipment and intangible assets	(537,700)	(280,329)
Sales of property and equipment and intangible assets	148,515	3,350
Available-for-sale financial assets	(3,455,580)	(264,226)
Held-to-maturity investments	629,263	(2,518,052)
Net cash flow from investing activities	(3,215,502)	(3,059,257)
Net cash flow from financing activities	x	x
Dividends paid	(1,685,286)	(50,000)
Net receipts from other borrowed funds	(4,930,508)	3,683,567
Receipts from issuance of debt securities	16,799,947	-
Net cash flow from financing activities	10,184,153	3,633,567
Effect of changes in exchange rates on cash and cash equivalents	235,047	(232,689)
Net increase in cash and cash equivalents	(30,967,230)	23,168,474
Cash and cash equivalents at the beginning of the period	142,713,317	68,115,676
Cash and cash equivalents at the end of the period	111,746,087	91,284,150

Validation date 15.07.16

Acting General Director-Chairman of the Management Board

Gevorg Tarumyan

Chief Accountant

Gohar Khachatryan

Statement of changes in equity
30-Jun-2016

Name of the Bank Ameriabank CJSC

Address Yerevan, Armenia 0015, G. Lusavorich 9, tel. 56 11 11

(thous. drams)

Item	Share capital	Share premium/loss	Revaluation reserve for financial assets	Retained earnings	Total
Appropriate interim period of previous financial year (cumulative)					
Balance as of 01 January 2015 (audited)	25,447,680	28,571	(132,315)	17,010,830	42,354,766
The cumulative effect of changes in accounting policy and the correction of fundamental errors	-	-	-	-	-
Balance after recalculation	25,447,680	28,571	(132,315)	17,010,830	42,354,766
Increase/decrease in fair value of financial assets, net of income tax		-	(68,707)	-	(68,707)
Net profit/ loss for the period	-	-	-	3,016,227	3,016,227
Dividends				(50,000)	(50,000)
Balance as of 30 June 2015 (unaudited)	25,447,680	28,571	(201,022)	19,977,057	45,252,286

Interim period of current financial year (cumulative)					
Balance as of 01 January 2016 (audited)	32,087,360	7,755,179	(251,309)	19,725,932	59,317,162
The cumulative effect of changes in accounting policy and the correction of fundamental errors	-	-	-	-	-
Balance after recalculation	32,087,360	7,755,179	(251,309)	19,725,932	59,317,162
Increase/decrease in fair value of financial assets, net of income tax	-	-	487,896	-	487,896
Net profit/ loss for the period	-	-	-	2,144,161	2,144,161
Dividends				(1,685,286)	(1,685,286)
Balance as of 30 June 2016 (unaudited)	32,087,360	7,755,179	236,587	20,184,807	60,263,933

Validation date 15.07.16

Acting General Director-Chairman of the Management Board

Gevorg Tarumyan

Chief Accountant

Gohar Khachatryan



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 its share in the Bank to 100%. On December 23, 2015 European Bank for Reconstruction and Development purchased in full additionally issued shares of the Bank for AMD 14,366,288 thousand.

The shareholders of the Bank as at 30 June 2016 and as at 31 December 2015 are Ameria Group (CY) and EBRD which own accordingly 79.3% and 20.7% of the Bank's shares.

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 12 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 2016 was 582 (2015: 598).

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.

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) Functional and presentation currency

The financial statements are presented in Armenian Drams (AMD), which is the Bank's functional and presentation currency. Financial information presented in AMD is rounded to the nearest thousand. The official CBA exchange rates at 30 June 2016 and 31 December 2015 were 476.68 AMD and 483.75 AMD to 1 USD, and 530.45 AMD and 528.69 AMD to 1 EUR,

respectively.

(d) 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”.

(e) 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 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is not relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. 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.

These amendments do not impact the Bank's accounting policies.

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). This is consistent with the Bank's current accounting policy, and thus this amendment does not impact the Bank's accounting policy.

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. This is consistent with the Bank's current accounting policy, and thus this amendment does not impact the Bank's accounting policy.

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. This amendment is not relevant for the Bank as it does not receive any management services from other entities.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. 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

The Bank is not a joint arrangement, and thus this amendment is not relevant for the Bank.

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).

The Bank does not apply the portfolio exception in IFRS 13.

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. In previous periods, the Bank has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Bank.

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 had no impact on the Bank, since the Bank is an existing IFRS preparer.

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(e), 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.

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.

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.

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

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

(ix) Derivative financial instruments

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

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

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

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

(x) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of

internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

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.

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.

(i) Financial assets carried at amortized cost

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

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

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

In some cases the observable data required to estimate the amount of 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.

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and 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.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of 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.

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.

(i) Share premium

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

(ii) 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.

(iii) Dividends

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

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

(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.

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 clarify that:

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

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

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

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

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

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of effective IFRSs – Amendments to IFRS 1

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

Annual improvements 2012-2014 Cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

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

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

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

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

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or

risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4 Net interest income

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Interest income				
Loans to customers	8,686,264	17,260,062	7,243,901	14,638,030
Income from factoring	214,055	409,375	98,399	252,605
Available-for-sale financial assets	367,972	654,825	230,410	422,016
Receivables from finance leases	49554	107,409	80,784	169658
Held-to-maturity investments	446,135	900,009	385,609	779,910
Loans and advances to banks	75,965	182,189	80,167	113,522
Amounts receivable under reverse repurchase agreements	132,132	281,034	69,181	153,103
Receivables from letters of credit	189,879	423,688	209,865	424,682
Other	4,683	24,502	60,239	131,014
	10,166,639	20,243,093	8,458,555	17,084,540
Interest expense				
Current accounts and deposits from customers	3,783,856	7,695,367	2,315,672	4,427,489
Other borrowed funds and subordinated borrowing	2,139,194	4,374,853	1,615,991	3,031,721
Deposits and balances from banks	186,776	314,449	193,973	461,915
Amounts payable under repurchase agreements	219,906	472,116	478,588	1,345,587
Letters of credit and guarantee	118,232	248,872	201,355	403,151
Debt securities issued	81,406	81,406	-	-
Other	11,547	24,162	31	362
	6,540,917	13,211,225	4,805,610	9,670,225
Net interest income	3,625,722	7,031,868	3,652,945	7,414,315

5 Fee and commission income

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Credit card maintenance	300,335	574,882	270,477	517,356
Money transfers	121,429	215,430	99,186	179,871
Guarantee and letter of credit issuance	82,625	160,106	79,309	158,362
Cash withdrawal and account service	108,091	213,545	87,708	165,880
Settlement operations	9,520	21,340	10,368	19,314
Brokerage services	59,860	110,824	42,771	92,971
Other	9,424	20,504	10,816	20,939
	691,284	1,316,631	600,635	1,154,693

6 Fee and commission expense

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Guarantee and letter of credit issuance	17,342	48,749	26,075	50,282
Credit card maintenance	90,691	163,932	68,434	124,867
Money transfers	25,497	46,597	18,531	36,012
Other	9,817	16,154	11,106	22,383
	<u>143,347</u>	<u>275,432</u>	<u>124,146</u>	<u>233,544</u>

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 includes revaluation of currency and interest rate derivative instruments, which are used for hedging open currency positions.

8 Net foreign exchange income

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Net gain on spot transactions	528,868	1,127,171	508,711	1,048,676
Net gain from revaluation of financial assets and liabilities	(93,763)	(26,993)	376,933	1,588,268
	<u>435,105</u>	<u>1,100,178</u>	<u>885,644</u>	<u>2,636,944</u>

9 Other operating income/(expenses)

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2016- 30/06/2016 AMD'000
Other operating income				
Income from fines and penalties	409,281	687,535	791,623	1,502,088
Income from disposal of fixed assets	-	-	436	2,283
Other income	36,356	71,049	30,681	57,379
	<u>445,637</u>	<u>758,584</u>	<u>822,740</u>	<u>1,561,750</u>
Other operating expenses				
Expenses on fines and penalties	-	(10)	-	(1,000)
Expenses from disposal of fixed assets	(16,807)	(16,807)	-	-
Encashment	(12,533)	(24,755)	(13,798)	(26,599)
Trading and brokerage activities	(44,638)	(79,114)	(32,292)	(62,793)

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2016- 30/06/2016 AMD'000
Guarantee payments to Armenian Deposit Guarantee Fund	(68,597)	(137,194)	(55,241)	(107,133)
Software maintenance	(62,667)	(122,140)	(51,784)	(106,072)
Payment system expenses	(84,148)	(171,252)	(58,968)	(129,908)
Other expenses	(83,898)	(130,382)	(101,481)	(207,697)
	<u>(373,288)</u>	<u>(681,654)</u>	<u>(313,564)</u>	<u>(641,202)</u>

10 Impairment (losses) reversals

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Loans to customers	1,239,292	2,008,934	1,023,613	2,247,778
Other assets	74,701	165,244	15,273	5,413
	<u>1,313,993</u>	<u>2,174,178</u>	<u>1,038,886</u>	<u>2,253,191</u>

11 Other general administrative expenses

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Operating lease expense	244,261	472,643	221,247	432,264
Advertising and marketing	174,791	311,853	98,687	220,698
Depreciation and amortization	194,527	394,284	190,973	366,229
Repairs and maintenance	66,957	108,507	50,321	101,271
Communications and information services	23,459	49,268	16,409	44,930
Travel expenses	36,088	39,594	14,522	25,364
Security	31,966	53,787	16,806	33,445
Professional services	13,352	19,717	19,243	23,876
Electricity and utilities	18,757	46,872	19,959	40,358
Insurance	7,015	14,368	6,636	12,331
Charity and sponsorship	30,082	31,912	14,869	16,269
Representation expenses	4,219	10,932	9,087	13,437
Office supplies	9,940	12,519	6,256	14,178
Taxes other than on payroll and income	4,061	14,028	12,877	32,120
Other	131,249	199,476	83,607	137,037
	<u>990,724</u>	<u>1,779,760</u>	<u>781,499</u>	<u>1,513,807</u>

12 Income tax expense

	01/04/2016- 30/06/2016 AMD'000	01/01/2016- 30/06/2016 AMD'000	01/04/2015- 30/06/2015 AMD'000	01/01/2015- 30/06/2015 AMD'000
Current tax expense				
Current year	-	-	182,258	577,419
Deferred tax expense				
Deferred taxation movement due to origination and reversal of temporary differences	198,268	536,040	417,039	417,947
Total income tax expense	198,268	536,040	599,297	995,366

In 2016 the applicable tax rate for current and deferred tax is 20% (2015: 20%).

Reconciliation of effective tax rate:

	2016 AMD'000	%	2015 AMD'000	%
Profit before tax	2,680,201		4,011,593	
Income tax at the applicable tax rate	536,040	20%	802,319	20%
Non-deductible costs	-	0%	193,047	4.8%
	536,040	20%	995,366	24.8%

(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 liabilities as at 30 June 2016 and as at 31 December 2015.

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

Movements in temporary differences during the periods ended 30 June 2016 and 31 December 2015 are presented as follows:

2016 AMD'000	Balance 1 January 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance 30 June 2016
Financial instruments at fair value through profit or loss	20,694	20,109	-	40,803
Available-for-sale financial assets	62,825	-	(121,976)	(59,151)
Allowance for other receivables and other provisions	65,746	(17,814)	-	47,932
Loans to customers	(1,010,351)	(360,630)	-	(1,370,981)
Property and equipment	14,379	7,277	-	21,656
Other assets	13,104	-	-	13,104
Other liabilities	354,359	(184,982)	-	169,377
	(479,244)	(536,040)	(121,976)	(1,137,260)

2015	Balance	Recognized	Recognized in other	Balance
AMD'000	1 January 2015	in profit or loss	comprehensive income	30 June 2015
Financial instruments at fair value through profit or loss	32,265	(128)	-	32,137
Available-for-sale financial assets	33,079		17,174	50,253
Allowance for other receivables and other provisions	(110,262)	(72,616)	-	(182,878)
Loans to customers	(237,650)	(86,722)	-	(324,372)
Property and equipment	60,865	8,297	-	69,162
Other assets	13,104	-	-	13,104
Other liabilities	351,216	(266,779)	-	84,437
	142,617	(417,949)	17,174	(258,157)

13 Cash and cash equivalents

	2016	2015
	AMD'000	AMD'000
Cash on hand	12,313,110	15,843,126
Nostro accounts with the CBA	80,254,288	105,555,056
Nostro accounts with other banks		
- rated AA- to AA+	13,943	13,047
- rated A- to A+	17,589,298	14,319,969
- rated from BB- to BBB+	1,563,028	6,913,069
- not rated	12,420	69,050
Total nostro accounts with other banks	19,178,689	21,315,135
Total cash and cash equivalents	111,746,087	142,713,317

The nostro accounts with the CBA represent balances for settlement activities and also obligatory reserves allocated with CBA. There are no withdrawal restrictions on them and these amounts can be used by the Bank for settlement purposes.

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

As at 30 June 2016 the Bank has one bank (2015: one), whose balances exceed 10% of equity. As at 30 June 2016 the balances of bank was 6,766,006 AMD'000 (31 December 2015: 7,672,871 AMD'000)

As at 30 June 2016 and 31 December 2015 the balances with the Central Bank of Armenia exceed 10% of equity.

14 Financial instruments at fair value through profit or loss

	2016 AMD'000	2015 AMD'000
ASSETS		
Held by the Bank		
Eurobonds of the Republic of Armenia	493,450	-
Derivative financial instruments		
Foreign currency contracts	68,940	465,303
	562,390	465,303
LIABILITIES		
Derivative financial instruments		
Interest rate swaps	204,012	103,468
Foreign currency contracts	91,689	476,658
Other contracts	-	2,434
	295,701	582,560

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 30 June 2016 and 31 December 2015 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	
	2016 AMD'000	2015 AMD'000	2016 AMD'000	2015 AMD'000
Pay fixed in USD, receive floating in USD	(204,012)	(103,468)	12,946,196	10,224,716

As at 30 June 2016 the Bank has four interest rate swap contracts with USD 15,000,000 initial notional amount each (2014: 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%, 1.5850% fixed rates, and receives 6-month USD-LIBOR-ICE floating rates for each contract, respectively. The contractual maturity of outstanding interest rate swap contracts is 2022.

15 Available-for-sale financial assets

	2016 AMD'000	2015 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	6,879,826	704,171
Eurobonds of the Republic of Armenia	2,807,302	3,190,731
Eurobonds of other countries	1,069,885	-
- Corporate bonds		
International Financial Institutions	820,293	818,813
Other	48,350	142,879
Equity investments		
- Unquoted equity securities at cost	106,458	106,458
	11,732,114	4,963,052
Pledged under sale and repurchase agreements		
Government securities of the Republic of Armenia	3,377,057	5,315,549
Eurobonds of the Republic of Armenia	-	-
	3,377,057	5,315,549

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

Name	Country of incorporation	Main activity	% Controlled		2016	2015
			2016	2015	AMD'000	AMD'000
ArCa	Republic of Armenia	Payment system	3.76%	3.76%	36,429	36,429
Artsakh bank cjsc	Republic of Armenia	Banking	1.06%	1.06%	69,250	69,250
SWIFT	Belgium	Money transfer	0.00%	0.00%	779	779
					106,458	106,458

(a) Investments without a determinable fair value

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

16 Loans and advances to banks

	2016 AMD'000	2015 AMD'000
Due from the CBA		
Credit card settlement deposit with the CBA	320,000	1,020,000
Loans and deposits with other banks		
Armenian banks	2,398,684	6,939,025
OECD banks	1,041,155	162,258
Foreign other banks	7,229,516	51,392
Total loans and deposits with other banks	10,669,355	7,152,675
Total loans and advances to banks	10,989,355	8,172,675

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 954,322 thousand (2015: AMD 167,068 thousand) which represents deposits pledged for letters of credit, guarantees and credit cards.

Concentration of loans and advances to banks

As at 30 June 2016 the Bank has one bank (2015: no bank), whose balances exceed 10% of equity. As at 30 June 2016 the balances of bank was 7,150,200 AMD'000.

17 Amounts receivable under reverse repurchase agreements

	2016 AMD'000	2015 AMD'000
Amounts receivable from medium and small Armenian financial institutions	7,253,411	5,980,477
Amounts receivable from Armenian banks	916,601	-
	8,170,012	5,980,477

Collateral

As at 30 June 2016 and 31 December 2015 amounts receivable under reverse repurchase agreements were collateralized by government and non-government securities with fair value of AMD 8,604,708 thousand (2015: 6,332,266 thousand).

18 Loans to customers

	2016 AMD'000	2015 AMD'000
Loans to corporate customers		
Loans to large corporates	235,111,050	216,842,942
Loans to small and medium size companies	60,964,594	54,039,424
Total loans to corporate customers	296,075,644	270,882,366
Loans to retail customers		
Mortgage loans	18,685,256	17,390,325
Credit cards	16,330,096	14,694,121
Business loans	1,121,521	2,386,816
Auto loans	2,456,769	2,904,684
Consumer loans	2,668,654	2,596,287
Total loans to retail customers	41,262,296	39,972,233
Gross loans to customers	337,337,940	310,854,599
Impairment allowance	(6,865,332)	(5,240,883)
Net loans to customers	330,472,608	305,613,716

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 not impaired	Individually impaired	Total
	High grade	Standard	Sub-standard	Past due but not impaired	Individually impaired	Total
	2016	grade 2016	grade 2016	2016	2016	2016
Net Loans to corporate customers	40,556,175	235,265,419	–	7,329,850	6,877,874	290,029,318
	High grade	Standard	Sub-standard	Past due but not impaired	Individually impaired	Total
	2015	grade 2015	grade 2015	2015	2015	2015
Net Loans to corporate customers	45,608,470	203,002,923	–	12,450,923	4,912,877	265,975,193

Movements in the loan impairment allowance by classes of loans to customers for the year 2016 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	4,907,173	333,710	5,240,883
Net charge	1,343,851	665,985	2,009,836
Recovery of loans previously written off	262,185	83,394	345,579
Write-offs	(466,884)	(264,082)	(730,966)
Balance at the end of the year	6,046,325	819,007	6,865,332

Movements in the loan impairment allowance by classes of loans to customers for the 2015 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	2,224,023	510,640	2,734,663
Net charge	4,195,925	217,944	4,413,869
Recovery of loans previously written off	806,847	197,689	1,004,536
Write-offs	(2,158,436)	(592,563)	(2,750,999)
Disposal of loans	(161,186)	—	(161,186)
Balance at the end of the year	4,907,173	333,710	5,240,883

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 30 June 2016:

	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	226,383,833	1,926,784	224,457,049	0.85%
- overdue more than 31 days and less than 90 days	721,466	7,215	714,251	1.00%
Total loans without individual signs of impairment	227,105,299	1,933,998	225,171,300	0.85%
Loans with individual signs of impairment				
Not impaired loans:				
- overdue more than 91 days and less than 180 days	206,561	2,066	204,496	1.00%
- overdue more than 181 days and less than 270 days	489,361	4,894	484,468	1.00%
- overdue more than 271 days	677,443	6,774	670,668	1.00%
Impaired loans:				
- overdue more than 91 days and less than 180 days	266,981	57,198	209,783	21.42%
- overdue more than 271 days	6,365,405	2,182,130	4,183,275	34.28%
Total loans with individual signs of impairment	8,005,751	2,253,062	5,752,689	28.14%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Total loans to large corporates	235,111,050	4,187,061	230,923,990	1.78%
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	51,840,571	517,519	51,323,052	1.00%
- overdue less than 30 days	2,042,515	20,425	2,022,090	1.00%
- overdue more than 31 days and less than 90 days	2,222,595	22,226	2,200,369	1.00%
Total loans without individual signs of impairment	56,105,681	560,170	55,545,510	1.00%
Loans with individual signs of impairment				
Not impaired loans				
- not overdue	41,913	419	41,494	1.00%
- overdue more than 91 days and less than 180 days	803,853	8,039	795,815	1.00%
- overdue more than 181 days and less than 270 days	56,016	560	55,456	1.00%
- overdue more than 271 days	184,079	1,841	182,238	1.00%
Impaired loans:				
- overdue more than 91 days and less than 180 days	753,731	154,241	599,490	20.46%
- overdue more than 181 days and less than 270 days	1,528,881	531,503	997,379	34.76%
- overdue more than 271 days	1,490,440	602,492	887,948	40.42%
Total loans with individual signs of impairment	4,858,913	1,299,095	3,559,818	26.74%
Total loans to small and medium size companies	60,964,594	1,859,265	59,105,328	3.05%
Total loans to corporate customers	296,075,644	6,046,326	290,029,318	2.04%
	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to retail customers				
Mortgage loans				
- not overdue	17,504,768	35,010	17,469,758	0.20%
- overdue less than 30 days	183,578	19,802	163,776	10.79%
- 31-90 days overdue	555,983	140,989	414,994	25.36%
- 91-180 days overdue	148,211	18,115	130,096	12.22%
- 181-270 days overdue	91,592	17,226	74,366	18.81%
- overdue more than 271 days	201,125	54,652	146,472	27.17%
Total mortgage loans	18,685,257	285,793	18,399,463	1.53%
Credit cards				
- not overdue	14,522,254	42,084	4,480,171	0.29%
- overdue less than 30 days	233,304	41,028	192,276	17.59%
- 31-90 days overdue	190,701	87,101	103,600	45.67%
- 91-180 days overdue	310,472	163,548	146,924	52.68%
- 181-270 days overdue	9,715	8,096	1,619	83.34%
- overdue more than 271 days	1,063,650	35,122	1,028,528	3.30%
Total credit cards	16,330,096	376,979	15,953,117	2.31%
Business loans				
- not overdue	809,817	16,196	793,621	2.00%
- overdue less than 30 days	4,788	96	4,692	2.00%
- 31-90 days overdue	300,280	6,006	294,274	2.00%
- 91-180 days overdue	1,909	38	1,871	2.00%
- overdue more than 271 days	4,726	1,034	3,692	21.88%
Total business loans	1,121,520	23,370	1,098,151	2.08%
Auto loans				
- not overdue	2,373,887	4,748	2,369,139	0.20%

- overdue less than 30 days	41,766	84	41,682	0.20%
- 31-90 days overdue	12,693	39	12,654	0.30%
- 91-180 days overdue	28,423	3,720	24,704	13.09%
Total auto loans	2,456,769	8,590	2,448,179	0.35%
Consumer loans				
- not overdue	2,391,200	8,637	2,382,563	0.36%
- overdue less than 30 days	10,225	1,762	8,463	17.23%
- 31-90 days overdue	54,662	9,401	45,261	17.20%
- 91-180 days overdue	141,471	74,322	67,149	52.54%
- 181-270 days overdue	13,317	7,073	6,244	53.11%
- overdue more than 271 days	57,779	23,079	34,701	39.94%
Total consumer loans	2,668,654	124,275	2,544,380	4.66%
Total loans to retail customers	41,262,296	819,007	40,443,290	1.98%
Total loans to customers	337,337,940	6,865,332	330,472,608	2.04%

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment:				
- not overdue	201,993,352	1,636,040	200,357,312	0.81%
- overdue less than 30 days	4,035,029	40,350	3,994,679	1.00%
Total loans without individual signs of impairment:	206,028,381	1,676,390	204,351,991	0.81%
Loans with individual signs of impairment				
Not impaired loans:				
- overdue more than 91 days and less than 180 days	1,150,296	11,503	1,138,793	1.00%
- overdue more than 181 days and less than 270 days	108,646	1,086	107,560	1.00%
- overdue more than 270 days	3,963,596	39,636	3,923,960	1.00%
Impaired loans:				
- overdue more than 181 days and less than 270 days	1,428,738	439,599	989,139	30.77%
- overdue more than 270 days	4,163,285	1,464,683	2,698,602	35.18%
Total loans with individual signs of impairment	10,814,561	1,956,507	8,858,054	18.09%
Total loans to large corporates	216,842,942	3,632,897	213,210,045	1.68%
Loans to small and medium size companies				
Loans without individual signs of impairment:				
- not overdue	48,692,336	438,255	48,254,081	0.90%
- overdue less than 30 days	632,931	5,696	627,235	0.90%
- overdue more than 31 days and less than 90 days	1,605,672	14,451	1,591,221	0.90%
Total loans without individual signs of impairment	50,930,939	458,402	50,472,537	0.90%
Loans with individual signs of impairment				
Not impaired loans				
- overdue more than 91 days and less than 180 days	885,654	7,971	877,683	0.90%
- overdue more than 181 days and less than 270 days	14,472	130	14,342	0.90%
- overdue more than 270 days	177,043	1,593	175,450	0.90%
Impaired loans:				
- overdue less than 30 days	210,191	119,388	90,803	56.80%
- overdue more than 31 days and less than 90 days	103,421	68,671	34,750	66.40%
- overdue more than 91 days and less than 180 days	500,011	237,226	262,785	47.44%
- overdue more than 181 days and less than 270 days	152,770	65,697	87,073	43.00%
- overdue more than 270 days	1,064,923	315,198	749,725	29.60%
Total loans with individual signs of impairment:	3,108,485	815,874	2,292,611	26.25%
Total loans to small and medium size companies	54,039,424	1,274,276	52,765,148	2.36%
Total loans to corporate customers	270,882,366	4,907,173	265,975,193	1.81%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to retail customers				
Mortgage loans				
- not overdue	16,914,866	33,830	16,881,036	0.20%
- overdue less than 30 days	110,517	4,432	106,085	4.01%
- 31-90 days overdue	50,502	2,025	48,477	4.01%
- 91-180 days overdue	257,282	43,490	213,792	16.90%
- more than 270 days	57,158	10,721	46,437	18.76%
Total mortgage loans	17,390,325	94,498	17,295,827	0.54%
Credit cards				
- not overdue	13,187,072	27,246	13,159,826	0.21%
- overdue less than 30 days	144,801	23,569	121,232	16.28%
- 31-90 days overdue	51,646	12,068	39,578	23.37%
- 91-180 days overdue	81,472	23,595	57,877	28.96%
- 181-270 days overdue	78,719	30,460	48,259	38.69%
- more than 270 days	1,150,411	50,760	1,099,651	4.41%
Total credit cards	14,694,121	167,698	14,526,423	1.14%
Business loans				
- not overdue	2,051,135	34,869	2,016,266	1.70%
- overdue less than 30 days	328,989	5,593	323,396	1.70%
- 31-90 days overdue	2,233	38	2,195	1.70%
- more than 270 days	4,459	766	3,693	17.18%
Total business loans	2,386,816	41,266	2,345,550	1.73%
Auto loans				
- not overdue	2,810,826	5,622	2,805,204	0.20%
- overdue less than 30 days	48,962	98	48,864	0.20%
- 31-90 days overdue	19,271	87	19,184	0.45%
- 91-180 days overdue	16,470	3,129	13,341	19.00%
- 181-270 days overdue	9,155	18	9,137	0.20%
Total auto loans	2,904,684	8,954	2,895,730	0.31%
Consumer loans				
- not overdue	2,467,911	4,936	2,462,975	0.20%
- overdue less than 30 days	10,071	416	9,655	4.13%
- 31-90 days overdue	17,313	1,877	15,436	10.84%
- 91-180 days overdue	91,949	12,141	79,808	13.20%
- 181-270 days overdue	9,043	1,924	7,119	21.28%
Total consumer loans	2,596,287	21,294	2,574,993	0.82%
Total loans to retail customers	39,972,233	333,710	39,638,523	0.83%
Total loans to customers	310,854,599	5,240,883	305,613,716	1.69%

(b) 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 is applied for performing loans to corporate customers and small and medium size companies;
- ▶ recoverable amount for loans with individual signs of impairment is calculated based on following assumptions:
 - 1) a discount of between 20% and 30% to the collateral value;
 - 2) a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

(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 estimated based on the historic loss migration pattern for the past 24 months. Loss migration rates are applied in respect of mortgage, credit card, auto and consumer loans;
- ▶ historic annual loss rate is estimated based on average loan write-off statistics and is applied in respect of performing business loans to individuals.

(c) Analysis of collateral

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be 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 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.

(ii) 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%.

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 30 June 2016 consumer loans are secured by real estate, movable property, salary, cash and guarantees. Other retail loans are mainly secured by gold.

(iii) Repossessed collateral

During the year 2016, the Bank obtained certain assets by taking possession of collateral for loans to corporate customers amounting AMD 219,154 thousand (2015: AMD 283,425 thousand). As at 30 June 2016 the repossessed 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.

(d) Industry and geographical analysis of the loan portfolio

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

	2016 AMD'000	2015 AMD'000
Real estate	40,072,310	42,133,471
Wholesale trade	37,122,116	36,447,087
Power generation	25,190,761	30,454,541
Agriculture, forestry and timber	20,305,362	20,659,055
Food and beverage	20,728,506	18,954,719
Retail trade	18,683,251	16,816,434
Construction	17,809,350	18,813,972
Communication services	16,026,422	17,245,195
Mining/Metallurgy	25,044,988	17,102,521
Hotel service	22,689,896	11,643,854
Manufacturing	8,393,136	9,027,795
Transportation	9,435,828	11,135,143
Finance and investment	6,747,231	5,802,627
Municipal authorities	-	2,597,393
Other	27,826,486	12,048,559
Loans to retail customers	41,262,297	39,972,233
	337,337,940	310,854,599
Impairment allowance	(6,865,332)	(5,240,883)
	330,472,608	305,613,716

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

	2016 AMD'000	2015 AMD'000
Armenia	227,662,206	217,645,811
OECD and EU	51,627,293	41,995,136
Other foreign countries	10,739,819	6,334,246
	290,029,318	265,975,193

(e) Significant credit exposures

As at 30 June 2016 the Bank has nine borrowers or groups of connected borrowers (2015: six), whose loan balances exceed 10% of equity. The gross value of these loans as at 30 June 2016 is AMD 75,538,749 thousand (31 December 2015: AMD 49,681,996 thousand).

(f) 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

	2016 AMD'000	2015 AMD'000
Receivables from letters of credit of banks	1,515,542	1,226,469
Receivables from letters of credit of other organizations	9,003,409	8,749,959
Impairment allowance	(1,403,466)	(1,246,423)
	9,115,485	8,730,005

No receivables from letters of credit are impaired or past due.

As at 30 June 2016 the Bank has no customer (2015: none), whose balances exceed 10% of equity.

Movements in impairment allowance for the year 2016 and 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Balance at the beginning of the year	1,246,423	28,490
Net charge	157,043	1,217,933
Write-offs	—	—
Balance at the end of the year	1,403,466	1,246,423

20 Receivables from finance leases

	2016 AMD'000	2015 AMD'000
Gross investment in finance leases receivable:		
Less than one year	2,036,780	761,401
Between one and five years	610,251	1,745,003
More than five years	498,529	51,309
	3,145,560	2,557,713
Unearned finance income	(687,361)	(416,240)
Impairment allowance	(42,767)	(42,009)
Net investment in finance leases	2,415,432	2,099,464
The net investment in finance leases comprises:		
Less than one year	1,564,015	699,033
Between one and five years	468,603	1,366,503
More than five years	382,814	33,928
	2,415,432	2,099,464

(a) Quality analysis of finance leases

The following table provides information on the quality analysis of finance leases as at 30 June 2016:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairmen t allowance to gross loans %
Finance leases				
- not overdue	2,188,097	15,913	2,172,184	0.73%
- 31-90 days overdue	171,605	1,720	169,885	1.0%
- 91-180 days overdue	43,349	3,117	40,232	7.2%
- more than 270 days	55,148	22,017	33,131	39.9%
Total finance leases	2,458,199	42,767	2,415,432	1.7%

The following table provides information on the quality analysis of finance leases as at 31 December 2015:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairmen t allowance to gross loans %
Finance leases				
- not overdue	2,088,159	19,446	2,068,713	0.93%
- 91-180 days overdue	53,314	22,563	30,751	42.32%
Total finance leases	2,141,473	42,009	2,099,464	1.96%

(b) Concentration of receivables from finance leases

As at 30 June 2016 the Bank has no customers whose balances exceed 10% of equity (2015: nil).

(c) Movement in impairment allowance

Movements in impairment allowance for the year 2016 and 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Balance at the beginning of the year	42,009	5,717
Net charge	3,204	46,822
Write-offs	(2,446)	(10,530)
Balance at the end of the year	42,767	42,009

(d) 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.

(e) 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

	2016 AMD'000	2015 AMD'000
Receivables from factoring	6,674,451	5,458,872
Impairment allowance	(13,349)	(10,918)
	6,661,102	5,447,954

As at 30 June 2016 the Bank has no customers whose balances exceed 10% of equity (2015: nil).

Movements in impairment allowance for the year 2016 and 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Balance at the beginning of the year	10,918	8,980
Net charge	2,546	113,812
Write-offs	-	(111,874)
Balance at the end of the year	13,464	10,918

22 Held-to-maturity investments

	2016	2015
	AMD'000	AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	5,905,362	2,575,961
Eurobonds of the Republic of Armenia	610,032	-
- Corporate bonds		
International Financial Institutions	1,301,196	1,301,535
Other	788,916	796,348
	8,605,506	4,673,844
Pledged under sale and repurchase agreements		
- Government securities of the Republic of Armenia	3,229,832	7,912,045
- Eurobonds of the Republic of Armenia	6,261,689	6,984,816
	9,491,521	14,896,861

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 2016	1,668,437	2,951,868	572,213	180,789	1,568,589	6,941,897
Additions	46,498	172,767	20,196	32,500	265,738	537,700
Disposals/write-offs	(134,009)	(88,202)	(31,293)	-	-	(253,504)
Balance at 30 June 2016	1,580,926	3,036,434	561,117	213,289	1,834,327	7,226,093
Depreciation and amortization						
Balance at 1 January 2016	772,770	1,909,964	375,925	160,660	527,463	3,746,782
Depreciation and amortization for the year	89,057	147,946	34,275	6,033	59,318	199,757
Disposals/write-offs	(28,055)	(67,112)	(18,849)	-	-	-
Balance at 30 June 2016	833,771	1,990,798	391,352	166,693	586,781	3,946,539
Carrying amount						
At 30 June 2016	747,154	1,045,636	169,765	46,596	1,189,939	3,199,091

AMD'000	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/Revalued amount						
Balance at 1 January 2015	1,626,201	2,640,538	541,291	188,435	893,308	5,889,773
Additions	42,282	355,945	43,739	1.1	678,965	1,120,933
Disposals/write-offs	-	-34,383	(6,127)	(7,647)	(3,684)	(51,841)
Balance at 31 December 2015	1,668,483	2,962,100	578,903	180,789	1,568,589	6,958,865
Depreciation and amortization						
Balance at 1 January 2015	603,492	1,628,538	309,686	157,815	359,598	3,059,129
Depreciation and amortization for the year	169,278	325,547	78,412	10,492	169,482	753,211
Disposals/write-offs	-	(33,987)	(5,926)	(7,647)	(1,618)	(49,178)
Balance at 31 December 2015	772,770	1,920,098	382,172	160,660	527,462	3,763,162
Carrying amount						
At 31 December 2015	895,713	1,042,002	196,731	20,129	1,041,127	3,195,703

There are no capitalized borrowing costs related to the acquisition or construction of property or equipment during 2016 (2015: nil).

24 Other assets

	2016 AMD'000	2015 AMD'000
Brokerage accounts	90,158	205,552
Receivables from banking services	780,676	686,834
Restricted accounts with clearing houses	340,647	345,494
Total other financial assets	1,211,481	1,237,880
Prepayments to suppliers	822,965	430,380
Repossessed assets	939,453	721,058
Small value assets	67,112	60,400
Other	45,236	53,014
Impairment allowance	(65,522)	(65,522)
Total other non-financial assets	1,809,244	1,199,330
Total other assets	3,020,725	2,437,210

Movements in the impairment allowance for other non-financial assets for the years ended 30 June 2016 and 31 December 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Balance at the beginning of the year	65,522	65,522
Net charge	1,548	363,078
Write-offs	(1,548)	(363,078)
Balance at the end of the year	65,522	65,522

25 Deposits and balances from banks

	2016 AMD'000	2015 AMD'000
Short term loans and term deposits from commercial banks	166,000	3,849,834
Long term loans and term deposits from commercial banks	4,488,517	87,227
Borrowings from CBA (through international programs)	8,081,428	5,921,668
Liabilities for letters of credit	10,142,809	11,119,805
Vostro accounts	340,321	235,997
	23,219,074	21,214,531

As at 30 June 2016 the Bank has two bank (2015: three banks), whose balances exceed 10% of equity. The gross value of these balances as at 30 June 2016 is AMD 14,238,116 thousand (2015: AMD 11,144,709 thousand).

(a) Borrowings from CBA

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”.

26 Current accounts and deposits from customers

	2016 AMD'000	2015 AMD'000
Current accounts and demand deposits		
- Retail	29,876,701	31,940,756
- Corporate	63,208,365	61,011,030
Term deposits		
- Retail	104,366,030	105,223,342
- Corporate	95,572,141	95,837,012
	293,023,237	294,012,140

As at 30 June 2016, the Bank has three customers (31 December 2015: four customers) whose balances exceed 10% of equity. The gross value of these balances as at 30 June 2016 is AMD 58,663,104 thousand (31 December 2015: AMD 68,380,267 thousand).

27 Debt securities issue

In 2016 Bank issued USD denominated debt securities, which were placed with four Luxembourg-based funds via its investment manager ResponsAbility Investments AG. The issued amount is USD 20 million (AMD 9,557,254 thousand) with maturity in 2021.

Bank also issued USD denominated debt securities amounting USD 15 million (AMD 7,242,691 thousand) in Armenia with maturity in 2018. The debt securities are listed in Nasdaq OMX Armenia stock exchange.

28 Other borrowed funds and subordinated borrowings

	2016 AMD'000	2015 AMD'000
Borrowings from international and other financial institutions	71,930,313	76,912,193
Borrowings from Government of Armenia	730,123	1,471,668
	72,660,436	78,383,861
Subordinated borrowings	40,120,231	39,721,324

(a) Concentration of borrowings from international financial institutions

As at 30 June 2016, the Bank has eight financial institutions (31 December 2015: eleven), whose balances exceed 10% of equity. These balances as at 30 June 2016 are AMD 86,819,109 thousand (31 December 2015 : AMD 109,578,263 thousand).

(b) Borrowings from the Government of Armenia

The borrowings from the Government of Armenia include amounts lent under an agreement with the CBA (acting as the agent of the Government of Armenia) and the Bank. According to the agreement the CBA provides borrowings 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 30 June 2016 subordinated borrowing represents:

- Borrowing received from a related party (AMD 5,830,646 thousand) maturing on 11 January 2021.
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 9,706,128 thousand) maturing on 23 September 2020.
The financial institution has the right to convert 62.5% of subordinated borrowing to ordinary shares.
- Borrowing received from international financial institutions (AMD 24,583,457 thousand) maturing on 11 January 2022.

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

	2016 AMD'000	2015 AMD'000
Payables to staff	1,115,458	1,738,221
Accrued expenses	710,981	636,227
Other financial liabilities	952,892	767,841
Total other financial liabilities	2,779,331	3,142,289
Deferred income	7,027	10,155
Other taxes payable	487,329	5,659
Total other non-financial liabilities	494,356	15,814

	2016 AMD'000	2015 AMD'000
Total other liabilities	<u>3,273,687</u>	<u>3,158,103</u>

30 Share capital and treasury shares

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 100,273 ordinary shares (2015: 100,273). All shares have a nominal value of AMD 320 thousand.

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.

During 2016 the Bank has paid dividends amounting to AMD 1,685,286 thousand (2015: AMD 2,100,000 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.

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 Liabilities Department in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing</i>	<i>Carrying amount</i>
30 June 2016							
Assets							
Cash and cash equivalents	-	-	-	-	-	111,746,087	111,746,087
Available-for-sale financial assets	675,998	144,295	1,103,711	9,981,083	3,097,625	106,459	15,109,171
Loans and advances to banks	9,715,172	-	-	-	-	1,274,183	10,989,355
Amounts receivable under reverse repurchase agreements	8,170,012	-	-	-	-	-	8,170,012
Loans to customers	15,844,479	31,752,852	50,783,289	172,209,851	49,383,729	10,498,406	330,472,608
Receivables from letters of credit	2,676,912	562,917	2,347,931	3,527,725	-	-	9,115,485
Receivables from finance leases	154,209	142,522	338,746	1,269,898	510,056	-	2,415,431
Receivables from factoring	6,592,834	125,483	-	-	-	-	6,718,317
Held-to-maturity investments	865,882	1,234,969	1,482,231	13,371,824	142,123	-	18,097,029
	45,695,499	33,963,038	56,055,909	200,360,381	53,133,533	123,625,135	512,833,494
Liabilities							
Deposits and balances from banks	(7,730,809)	(600,057)	(2,290,206)	(10,342,418)	(2,255,583)	-	(23,219,074)
Amounts payable under repurchase agreements	(12,529,492)	-	-	-	-	-	(12,529,492)
Current accounts and deposits from customers	(41,696,161)	(32,481,206)	(79,230,344)	(45,187,743)	(91,141)	(94,336,642)	(293,023,237)
Debt securities issue	(9,557,254)	-	-	(7,242,691)	-	-	(16,799,945)
Subordinated borrowings	(34,308,396)	-	-	-	(5,811,835)	-	(40,120,231)
Other borrowed funds	(40,185,352)	(22,967,513)	(9,309,865)	(177,869)	(19,837)	-	(72,660,436)
	(146,007,464)	(33,081,263)	(90,830,415)	(62,950,721)	(8,178,396)	(94,336,642)	(458,352,415)
Effect of derivatives	10,616,964	-	(2,329,232)	(7,421,041)	(866,691)	-	-
Net position	(89,695,001)	881,774	(37,103,738)	129,988,619	44,088,446	29,288,493	54,481,079

<i>AMD'000</i>	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing</i>	<i>Carrying amount</i>
31 December 2015							
Assets							
Cash and cash equivalents	–	–	–	–	–	142,713,317	142,713,317
Available-for-sale financial assets	34,243	570,496	818,813	6,617,748	2,130,841	106,460	10,278,601
Loans and advances to banks	6,985,607	–	–	–	–	1,187,068	8,172,675
Amounts receivable under reverse repurchase agreements	5,980,477	–	–	–	–	–	5,980,477
Loans to customers	53,116,619	13,576,243	32,566,376	162,787,834	31,061,856	12,504,788	305,613,716
Receivables from letters of credit	1,404,271	381,894	2,956,525	3,987,315	–	–	8,730,005
Receivables from finance leases	252,964	150,393	295,676	1,366,503	33,928	–	2,099,464
Receivables from factoring	4,701,022	746,932	–	–	–	–	5,447,954
Held-to-maturity investments	1,563,685	3,492,092	2,998,617	10,877,982	638,329	–	19,570,705
	74,038,888	18,918,050	39,636,007	185,637,382	33,864,954	156,511,633	508,606,914
Liabilities							
Deposits and balances from banks	(5,946,744)	(1,207,719)	(3,603,911)	(8,262,368)	(2,193,789)	–	(21,214,531)
Amounts payable under repurchase agreements	(19,004,763)	–	–	–	–	–	(19,004,763)
Current accounts and deposits from customers	(61,159,253)	(33,413,051)	(54,740,255)	(51,657,186)	(90,609)	(92,951,786)	(294,012,140)
Subordinated borrowings	(33,909,489)	–	–	–	(5,811,835)	–	(39,721,324)
Other borrowed funds	(47,094,096)	(20,740,323)	(295,853)	(10,253,589)	–	–	(78,383,861)
	(167,114,345)	(55,361,093)	(58,640,019)	(70,173,143)	(8,096,233)	(92,951,786)	(452,336,619)
Effect of derivatives	8,300,710	–	(1,924,006)	(6,376,704)	–	–	–
Net position	(84,774,747)	(36,443,043)	(20,928,018)	109,087,535	25,768,721	63,559,847	56,270,295

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 30 June 2016 and 31 December 2015.

	2016			2015		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Available-for-sale financial assets	13.83%	5.23%	–	13.28%	6.51%	–
Loans and advances to banks	–	3.40%	–	9.31%	7.08%	–
Amounts receivable under reverse repurchase agreements	8.35%	3.5%	–	10.60%	–	–
Loans to customers	13.44%	10.07%	8.61%	13.70%	10.58%	10.11%
Receivables from finance leases	15.07%	8.85%	12.00%	14.88%	11.29%	9.75%
Receivables from factoring	17.28%	10.81%	13.90%	18.00%	11.08%	13.41%
Held-to-maturity investments	12.50%	5.62%	–	11.42%	5.62%	–
Interest bearing liabilities						

	2016			2015		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Deposits and balances from banks	7.65%	2.11%	1.53%	7.42%	1.75%	1.76%
Amounts payable under repurchase agreements	7.56%	-	-	9.16%	-	-
Debt securities issue		5.37%				
Term deposits	12.40%	5.96%	5.89%	12.12%	6.31%	5.96%
Subordinated borrowings	-	7.59%	-		7.60%	-
Other borrowed funds	11.30%	5.94%	-	14.07%	5.56%	-

(i) Currency risk

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

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 June 2016:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	30,274,019	13,695,207	814,363	44,783,589
Banking standardized bullions of precious metals	-	-	533,357	533,357
Available-for-sale financial assets	3,925,538	-	-	3,925,538
Loans and advances to banks	10,252,523	1,523,453	30,797	11,806,773
Loans to customers	242,155,192	18,360,383	8,883	260,524,458
Receivables from letters of credit	4,728,997	4,386,487	-	9,115,484
Receivables from finance leases	1,636,558	378,286	-	2,014,844
Receivables from factoring	6,419,775	2,617	35,455	6,457,847
Held-to-maturity investments	7,358,039	-	-	7,358,039
Other financial assets	1,255,591	132,081	22,009	1,409,681
Total assets	309,641,743	38,478,514	1,444,865	349,565,122
LIABILITIES				
Financial instruments at fair value through profit or loss	204,012	-	79	204,091
Deposits and balances from banks	8,079,915	3,557,874	28,984	11,666,773
Current accounts and deposits from customers	176,529,668	34,614,432	1,554,949	212,699,049
Subordinated borrowings	40,120,231	-	-	40,120,231
Other borrowed funds	61,151,532	-	-	61,151,532
Other financial liabilities	687,178	331,920	4,429	1,023,527
Total liabilities	303,572,483	38,504,226	1,588,441	343,665,150
Net position	6,069,260	(25,712)	(143,576)	5,899,972
Effect of derivatives	(594,837)	-	479,245	(115,592)
Net position	5,474,423	(25,712)	335,669	5,784,380

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS				
Cash and cash equivalents	60,141,868	15,012,464	1,521,188	76,675,520
Banking standardized bullions of precious metals	-	-	77,973	77,973
Available-for-sale financial assets	3,333,610	-	-	3,333,610
Loans and advances to banks	3,184,243	63,443	16,550	3,264,236
Loans to customers	228,788,428	12,485,159	-	241,273,587
Receivables from letters of credit	4,681,253	5,295,175	-	9,976,428
Receivables from finance leases	1,206,759	473,256	-	1,680,015
Receivables from factoring	5,277,664	12,878	11,584	5,302,126
Held-to-maturity investments	7,478,416	-	-	7,478,416
Other financial assets	1,163,741	65,068	90,071	1,318,880
Total assets	315,255,982	33,407,443	1,639,393	350,302,818
LIABILITIES				
Financial instruments at fair value through profit or loss	105,902	-	-	105,902
Deposits and balances from banks	10,295,701	4,932,921	113,686	15,342,308
Current accounts and deposits from customers	188,172,730	28,185,894	2,929,210	219,287,834
Subordinated borrowings	39,721,324	-	-	39,721,324
Other borrowed funds	69,615,481	-	-	69,615,481
Other financial liabilities	701,156	306,350	55,264	1,062,770
Total liabilities	308,612,294	33,425,165	3,098,160	345,135,619
Net position	6,643,688	(17,722)	(1,458,767)	5,167,199
Effect of derivatives	(2,321,837)	-	1,490,584	(831,253)
Net position	4,321,851	(17,722)	31,817	4,335,946

A strengthening of the AMD, as indicated below, against the following currencies at 30 June 2016 and 31 December 2015 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.

	<i>2016</i>		<i>2015</i>	
	<i>Appreciation</i>	<i>Profit or loss AMD'000</i>	<i>Appreciation</i>	<i>Profit or loss AMD'000</i>
AMD against USD	10.00%	(547,442)	10.00%	(432,185)
AMD against EUR	14.00%	3,600	14.00%	2,481

A weakening of the AMD against the above currencies at 30 June 2016 and 31 December 2015 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.

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 transactions upon the counterparty's failure to post collateral.

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

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 30 June 2016:

AMD'000

Types of financial assets/liabilities	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	8,170,012	-	8,170,012	(8,170,012)	-	-
Total financial assets	8,170,012	-	8,170,012	(8,170,012)	-	-
Amounts payable under repurchase agreements	(12,529,492)	-	(12,529,492)	12,529,492	-	-
Total financial liabilities	(12,529,492)	-	(12,529,492)	12,529,492	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

AMD'000

Types of financial assets/liabilities	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	5,980,477	-	5,980,477	(5,980,477)	-	-
Total financial assets	5,980,477	-	5,980,477	(5,980,477)	-	-
Amounts payable under repurchase agreements	(19,004,763)	-	(19,004,763)	19,004,763	-	-
Total financial liabilities	(19,004,763)	-	(19,004,763)	19,004,763	-	-

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 liquidity 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.

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 table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 30 June 2016:

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	111,746,087	-	-	-	-	-	-	111,746,087
Banking standardized bullions of precious metals	-	-	-	-	-	533,357	-	533,357
Financial instruments at fair value through profit or loss	68,940	-	-	-	493,450	-	-	562,390
Available-for-sale financial assets	675,998	-	1,248,006	9,981,083	3,097,625	106,459	-	15,109,171
Loans and advances to banks	8,752,086	963,086	-	-	-	1,274,183	-	10,989,355
Amounts receivable under reverse repurchase agreements	8,170,012	-	-	-	-	-	-	8,170,012
Loans to customers	15,917,722	15,515,343	53,795,759	177,408,095	57,361,19	-	10,474,489	330,472,608
Receivables from letters of credit	954,176	1,722,735	2,910,848	3,527,726	-	-	-	9,115,485
Receivables from finance leases	65,537	88,672	481,269	1,269,898	510,056	-	-	2,415,432
Receivables from factoring	3,064,035	3,528,800	125,482	-	-	-	-	6,718,317
Held-to-maturity investments	1,440,360	425,521	2,717,200	13,371,823	142,123	-	-	18,097,026
Property, equipment and intangible assets	-	-	-	-	-	3,199,091	-	3,199,091
Current tax asset	-	-	2,012,095	-	-	-	-	2,012,095
Other assets	879,581	126,151	1,670,416	-	-	344,577	-	3,020,725
Total assets	151,734,535	22,370,308	64,961,075	205,558,625	61,604,453	5,457,667	10,474,489	522,161,148
LIABILITIES								
Financial instruments at fair value through profit or loss	24,079	-	-	271,622	-	-	-	295,701
Amounts payable under repurchase agreements	12,529,492	-	-	-	-	-	-	12,529,492
Deposits and balances from banks	6,092,155	1,638,653	2,890,263	10,342,420	2,255,583	-	-	23,219,074
Current accounts and deposits from customers	113,637,552	21,680,963	112,219,824	45,393,343	91,555	-	-	293,023,237
Debt securities issue	-	-	-	16,799,945	-	-	-	16,799,945
Subordinated borrowings	983,374	362,476	-	15,131,466	23,642,915	-	-	40,120,231
Other borrowed funds	3,725,653	2,407,078	21,050,762	41,785,435	3,691,508	-	-	72,660,436
Deferred tax liability	-	-	1,137,260	-	-	-	-	1,137,260
Other liabilities	793,936	280,005	1,037,902	-	-	-	-	2,111,843

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
Total liabilities	137,786,241	26,369,175	138,336,011	129,724,231	29,681,561	-	-	461,897,219
Net position	13,788,102	(3,977,039)	(73,342,906)	75,924,624	31,938,996	5,457,667	10,474,489	60,263,933

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

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	142,713,317	-	-	-	-	-	-	142,713,317
Financial instruments at fair value through profit or loss	-	-	-	465,303	-	-	-	465,303
Available-for-sale financial assets	-	34,243	1,389,309	6,617,748	2,130,843	106,458	-	10,278,601
Loans and advances to banks	5,748,086	1,237,521	-	-	-	1,187,068	-	8,172,675
Amounts receivable under reverse repurchase agreements	5,980,477	-	-	-	-	-	-	5,980,477
Loans to customers	14,461,769	14,129,803	51,930,687	174,147,478	38,439,191	-	12,504,788	305,613,716
Receivables from letters of credit	1,095,892	308,379	3,338,419	3,987,315	-	-	-	8,730,005
Receivables from finance leases	87,382	165,582	446,069	1,366,503	33,928	-	-	2,099,464
Receivables from factoring	2,919,226	1,781,796	746,932	-	-	-	-	5,447,954
Held-to-maturity investments	1,274,824	288,860	6,490,709	10,877,982	638,330	-	-	19,570,705
Property, equipment and intangible assets	-	-	-	-	-	3,195,703	-	3,195,703
Current tax asset	-	-	1,090,585	-	-	-	-	1,090,585
Other assets	892,907	93,568	1,101,311	-	-	427,397	-	2,515,183
Total assets	175,173,880	18,039,752	66,534,021	197,462,329	41,242,292	4,916,626	12,504,788	515,873,688
Liabilities								
Financial instruments at fair value through profit or loss	3,904	58,674	30,542	489,440	-	-	-	582,560
Amounts payable under repurchase agreements	19,004,763	-	-	-	-	-	-	19,004,763
Deposits and balances from banks	1,825,832	4,120,912	4,811,630	8,262,368	2,193,789	-	-	21,214,531

Ameriabank cjsc
Notes to, and forming part of, the financial statements for the second quarter 2016

<i>AMD'000</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Overdue</i>	<i>Total</i>
Current accounts and deposits from customers	117,925,467	36,185,264	88,153,500	51,657,299	90,610	–	–	294,012,140
Subordinated borrowing	22,448	357,282	–	9,595,511	29,746,083	–	–	39,721,324
Other borrowed funds	7,516,525	2,734,291	11,753,769	50,675,377	5,703,899	–	–	78,383,861
Deferred tax liability	–	–	479,244	–	–	–	–	479,244
Other liabilities	767,914	67,876	2,322,313	–	–	–	–	3,158,103
Total liabilities	147,066,853	43,524,299	107,550,998	120,679,995	37,734,381	–	–	456,556,526
Net position	28,107,027	(25,484,547)	(41,016,977)	76,782,334	3,507,911	4,916,626	12,504,788	59,317,162

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 30 June 2016 and during the reporting period are as follows:

	2016 AMD'000	2015 AMD'000
At 30 June (unaudited)	156%	177%
Average for June (unaudited)	151%	151%

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 maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, 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 30 June 2016 and 31 December 2015, this minimum level was 12%. The Bank is in compliance with the statutory capital ratio as at 30 June 2016 and 31 December 2015.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Central Bank of Armenia, as at 30 June 2016 and 31 December 2015:

	2016 AMD'000 Unaudited	2015 AMD'000 Unaudited
Tier 1 capital		
Share capital	32,087,360	32,087,360
Share premium	7,755,180	7,755,179
General reserve	4,249,146	4,127,146
Retained earnings	10,645,916	11,842,250
Deductions	(2,306,449)	(1,806,935)
Total tier 1 capital	52,431,153	54,005,000

	2016 AMD'000	2015 AMD'000
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	236,587	(251,309)
Subordinated borrowing (not greater than 50% of tier 1 capital)	25,978,990	27,253,810
Total tier 2 capital	26,215,577	27,002,501
Total capital	78,646,730	81,007,502
 Total risk weighted assets	 473,854,090	 398,811,974
 Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	 16.6%	 20.2%

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 related commitments take the form of approved loans and credit card limits and overdraft facilities.

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

	2016 AMD'000	2015 AMD'000
Contracted amount		
Guarantees	10,709,197	11,611,167
Letters of credit	204,790	3,045,891
Credit card commitments	7,294,588	6,787,810
Loan and credit line commitments	5,189,676	5,459,585
Undrawn overdraft facilities	3,020,126	5,355,413
	26,418,377	32,259,866

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 30 June 2016 and 31 December 2015 are payable as follows:

	2016 AMD'000	2015 AMD'000
Less than 1 year	1,962,382	1,809,340
Between 1 and 5 years	8,108,517	9,727,656
More than 5 years	7,652,962	6,709,069
	17,723,862	18,246,065

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. As at 30 June 2016 operating leases include non-cancellable rentals to a related party amounting to AMD 15,086,121 thousand (2015: AMD 15,309,875 thousand).

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. The Bank has up to AMD 6,521,734 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.

(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 79.3% of the share capital.

The ultimate parent of the Bank is RKVF family foundation wherein the settlor is Mr. Ruben Vardanyan and final beneficiary owners are his family members.

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 quarter ended 30 June 2016 and 31 December 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Short-term employee benefits	1,698,268	1,110,026

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 30 June 2016 and 31 December 2015 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2016 AMD'000	Average interest rate, %	2015 AMD'000	Average interest rate, %
Statement of financial position				
Loans issued	805,167	6.49%	957,650	6.4%
Other asset	2,718	-	1,771	0.0%
Deposits received	805,198	6.83%	1,139,953	6.8%
Guarantees	33,368	0%	33,863	0.0%

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 30 June 2016 and 31 December 2015 are as follows:

	2016 AMD'000	2015 AMD'000
Profit or loss		
Interest income	31,720	19,873
Interest expense	(30,073)	(29,348)

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 30 June 2016 and related profit or loss amounts of transactions for the quarter ended 30 June 2016 with other related parties are as follows:

	Parent company		Shareholder with significant influence		Other subsidiaries of the parent company		Other		Total
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
Statement of financial position									
ASSETS									
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	66,597	-	66,597
Available-for-sale financial assets	-	-	675,998	12.0%	-	-	-	-	675,998
Loans to customers	-	-	-	-	-	-	34,547,588	12.8%	34,547,588
Held-to-maturity investments	-	-	1,050,731	12.0%	-	-	-	-	1,050,731
LIABILITIES									
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	67,612	-	67,612
Current accounts and deposits from customers									
- Current accounts and demand deposits	648,853	0.00%	35,544	0%	793,524	0%	6,499,572	0%	7,977,493
- Term deposits	1,911,573	2.60%	-	-	1,063,634	2.97%	29,564,728	12.9%	32,539,935
Subordinated borrowing	-	-	-	-	-	-	5,830,646	6.0%	5,830,646
Other borrowing	-	-	10,717,484	11.5%	-	-	-	-	10,717,484
Other liabilities	-	-	4,763	0.00%	-	-	-	-	4,763
Items not recognised in the statement of financial position									
Guarantees given	-	-	4,382,075	-	-	-	-	-	4,382,075
Guarantees received	-	-	-	-	-	-	18,566	-	18,566
Profit (loss)									
Interest income	-	-	-	-	-	-	2,036,802	-	2,036,802
Interest expense	(7,462)	-	(683,275)	-	(30,246)	-	(1,952,703)	-	(2,686,871)

The outstanding balances and the related average effective interest rates as at 31 December 2015 and related profit or loss amounts of transactions for the quarter ended 31 December 2015 with other related parties are as follows:

	<i>Parent company</i>		<i>Shareholder with significant influence</i>		<i>Subsidiaries of the parent company</i>		<i>Entities under common control and other related parties</i>		
	<i>AMD'000</i>	<i>Average interest rate, %</i>	<i>AMD'000</i>	<i>Average interest rate, %</i>	<i>AMD'000</i>	<i>Average interest rate, %</i>	<i>AMD'000</i>	<i>Average interest rate, %</i>	<i>Total AMD'000</i>
Statement of financial position									
ASSETS									
Financial instruments at fair value through profit or loss	—	—	—	—	—	—	465,960	—	465,960
Available-for-sale financial assets	—	—	678,138	12.0%	—	—	—	—	678,138
Loans to customers	—	—	—	—	—	—	27,776,910	14.0%	27,776,910
Held-to-maturity investments	—	—	1,051,056	12.0%	—	—	—	—	1,051,056
LIABILITIES									
Financial instruments at fair value through profit or loss	—	—	—	—	—	—	473,034	—	473,034
Current accounts and deposits from customers									
- Current accounts and demand deposits	2,020,704	0.0%	1,444	0.0%	84,166	0.0%	3,667,836	0.0%	5,774,150
- Term deposits	—	—	—	—	2,916,150	3.5%	28,580,396	12.8%	31,496,546
Subordinated borrowings	—	—	—	—	—	—	5,932,070	6.0%	5,932,070
Other borrowings	—	—	9,796,186	13.2%	—	—	—	—	9,796,186
Items not recognised in the statement of financial position									
Guarantees received from related parties	—	—	8,740,522	—	—	—	—	0.0%	8,740,522
Guarantees given	—	—	—	—	—	—	18,504	0.0%	18,504
Not used Credit lines			967,500				—		967,500
Profit (loss)									
Interest income	—	—	—	—	—	—	57,291	—	57,291
Interest expense	—	—	—	—	(15,207)	—	(187,878)	—	(203,085)

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 30 June 2016 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 106,458 thousand (2015: AMD 106,458 thousand) cannot be determined.

(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 30 June 2016, 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	-	562,390	562,390
- Derivative liabilities	-	(295,701)	(295,701)
Available-for-sale financial assets			
- Debt instruments	-	15,002,713	15,002,713
	<u>-</u>	<u>15,269,402</u>	<u>15,269,402</u>

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Derivative assets	-	465,303	465,303
- Derivative liabilities	-	(582,560)	(582,560)
Available-for-sale financial assets			
- Debt instruments		10,172,143	10,172,143
	-	10,054,886	10,054,886