Kilikia Universal Credit Organization LLC

Financial Statements
for the year ended 31 December 2015

Contents

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Independent Auditors' Report

To the Board of Directors

Kilikia Universal Credit Organization LLC

We have audited the accompanying financial statements of Kilikia Universal Credit Organization LLC (the Organization), which comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Tigran Gasparyan
Engagement Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc

KPMG Armenia cjsc
29 June 2016

	Notes	2015 AMD'000	2014 AMD'000
Interest income	4	454,761	421,676
Interest expense	4	(218,107)	(177,681)
Net interest income		**236,654**	**243,995**
Fee and commission income		14,000	6,525
Fee and commission expense		(727)	(986)
Net fee and commission income		**13,273**	**5,539**
Net foreign exchange income		4,042	5,809
Net loss on available-for-sale financial assets		(7,408)	(28,057)
Other operating expense		(4,586)	(659)
Operating income		**241,975**	**226,627**
Impairment losses	5	(28,887)	(9,912)
Personnel expenses		(97,690)	(96,948)
Other general administrative expenses	6	(39,122)	(40,563)
Profit before income tax		**76,276**	**79,204**
Income tax expense	7	(13,420)	(15,259)
Profit for the year		**62,856**	**63,945**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		6,521	(151,755)
- Net change in fair value transferred to profit or loss		5,926	22,446
Total items that are or may be reclassified subsequently to profit or loss		12,447	(129,309)
Other comprehensive income/(loss) for the year, net of income tax		**12,447**	**(129,309)**
Total comprehensive income/(loss) for the year		**75,303**	**(65,364)**

The financial statements as set out on pages 5 to 46 were approved by the Board of Directors on 29 June 2016 and were signed on its behalf by management:

Arsen Katvalyan
Executive Director

Varduhi Khachatryan
Chief Accountant

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

	Notes	2015 AMD'000	2014 AMD'000
ASSETS			
Cash and cash equivalents	8	21,512	22,113
Available-for-sale financial assets			
- Held by the Organization	9	21,011	103,369
- Pledged under sale and repurchase agreements	9	1,628,439	542,462
Loans to customers	10	2,010,044	1,386,317
Property, equipment and intangible assets	11	19,838	14,265
Deferred tax asset	7	-	458
Other assets		17,691	71,569
Total assets		**3,718,535**	**2,140,553**
LIABILITIES			
Amounts payable under repurchase agreements	12	1,533,521	523,609
Loans and borrowings	13	1,378,788	887,653
Deferred tax liability	7	2,019	-
Other liabilities		18,591	18,978
Total liabilities		**2,932,919**	**1,430,240**
EQUITY			
Share capital	14	561,000	561,000
Revaluation reserve for available-for-sale financial assets		20,673	8,226
Retained earnings		203,943	141,087
Total equity		**785,616**	**710,313**
Total liabilities and equity		**3,718,535**	**2,140,553**

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

	Notes	2015 AMD'000	2014 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		426,728	444,364
Interest payments		(215,761)	(176,545)
Fee and commission receipts		14,000	6,525
Fee and commission payments		(727)	(986)
Net payments from available-for-sale financial assets		(7,408)	(28,057)
Net receipts from foreign exchange		647	1,963
Other payments		(14,513)	(659)
Personnel and other general administrative expenses payments		(130,556)	(132,508)
(Increase) decrease in operating assets			
Loans to customers		(654,481)	(166,055)
Available-for-sale financial assets		(960,529)	536,069
Other assets		64,610	640
Increase (decrease) in operating liabilities			
Amounts payable under sale and repurchase agreements		1,009,912	(665,834)
Other liabilities		(756)	(2,722)
Net cash used in operating activities before income tax paid		**(468,834)**	**(183,805)**
Income tax paid		(14,055)	(30,621)
Cash flows used in operations		**(482,889)**	**(214,426)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(1,324)	(2,447)
Cash flows from (used in) investing activities		**(1,324)**	**(2,447)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		849,771	862,274
Repayment of loans and borrowings		(365,957)	(738,510)
Cash flows from financing activities		**483,814**	**123,764**
Net decrease in cash and cash equivalents		**(399)**	**(93,109)**
Effect of changes in exchange rates on cash and cash equivalents		(202)	(209)
Cash and cash equivalents as at the beginning of the year		22,113	115,431
Cash and cash equivalents as at the end of the year	8	**21,512**	**22,113**

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

AMD'000	**Share capital**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings**	**Total**
Balance as at 1 January 2014	561,000	137,535	77,142	775,677
Total comprehensive income				
Profit for the year	-	-	63,945	63,945
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	(151,755)	-	(151,755)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	22,446	-	22,446
Total items that are or may be reclassified subsequently to profit or loss	-	*(129,309)*	-	*(129,309)*
Total other comprehensive income	-	(129,309)	-	(129,309)
Total comprehensive loss for the year	**-**	**(129,309)**	**63,945**	**(65,364)**
Balance as at 31 December 2014	**561,000**	**8,226**	**141,087**	**710,313**
Balance as at 1 January 2015	561,000	8,226	141,087	710,313
Total comprehensive income				
Profit for the year	-	-	62,856	62,856
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	6,521	-	6,521
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	5,926	-	5,926
Total items that are or may be reclassified subsequently to profit or loss	-	*12,447*	-	*12,447*
Total other comprehensive income	-	12,447	-	12,447
Total comprehensive income for the year	**-**	**12,447**	**62,856**	**75,303**
Balance as at 31 December 2015	**561,000**	**20,673**	**203,943**	**785,616**

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

1 Background

(a) Organization and operations

Kilikia Universal Credit Organization LLC (the Organization) was established in the Republic of Armenia as a limited liability company and was granted its credit organization license on 17 August 2010. The Organization's registered office is 50 Teryan Street, Yerevan, Republic of Armenia.

The principal activity of the Organization is lending. The activities of the Organization are regulated by the Central Bank of the Republic of Armenia (CBA). The majority of the Organization's assets and liabilities are located in the Republic of Armenia.

As at 31 December 2015 and 31 December 2014 the Organization is wholly-owned and ultimately controlled by a single individual, Vardan Danghyan. Related party transactions are detailed in note 19.

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

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

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

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

(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 the following notes:

- note 10 – loans to customers;
- note 20 – estimates of fair values of financial assets and liabilities.

3 Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated to the AMD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary 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.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted current accounts and short-term deposits with banks. Short-term deposits are deposits with an initial maturity of less than three months. Cash and cash equivalents are carried at amortized 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 a financial guarantee contract or designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Organization 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 Organization 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 Organization:

- 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 Organization has the positive intention and ability to hold to maturity, other than those that:

- the Organization upon initial recognition designates as at fair value through profit or loss
- the Organization 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 Organization becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement 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 can not 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 Organization has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Organization 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 Organization 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 Organization 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 Organization 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 Organization 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.

The Organization recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

The Organization 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 Organization 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 Organization is recognized as a separate asset or liability in the statement of financial position. The Organization derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organization 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 Organization 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 Organization continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Organization 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) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Organization currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Organization currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Organization and all counterparties.

(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:

- computers and other equipment	3 years
- fixtures and fittings	5 years
- motor vehicles	5 years

(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 life of computer software is 10 years.

(f) Impairment

The Organization 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 Organization 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 Organization 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.

(i) Financial assets carried at amortized cost

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

The Organization 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 Organization 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 Organization uses its experience and judgement 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 Organization 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) 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.

(iii) Non financial assets

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

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

(g) Provisions

A provision is recognized in the statement of financial position when the Organization 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.

(j) Credit related commitments

In the normal course of business, the Organization enters into credit related commitments, comprising undrawn loan commitments.

Loan commitments are not recognized, except for the followings:

- loan commitments that the Organization designates as financial liabilities at fair value through profit or loss
- if the Organization 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.

(h) 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.

The shares of the Organization are redeemable at the option of the shareholder under the legislation of the Republic of Armenia. In accordance with IAS 32 *Financial Instruments: Presentation* the net assets attributable to shareholders are classified as equity in all periods presented in these financial statements because the management concluded that the Organization's puttable financial instruments satisfy all the conditions set in IAS 32 for equity presentation.

(i) Dividends

The ability of the Organization 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.

(i) Taxation

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Organization 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.

(j) Income and expense recognition

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

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

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

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) New standards and interpretations not yet adopted

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

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

New or amended standard	Summary of the requirements	Possible impact on financial statements
Various *Improvements to IFRS*	Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016.	The Organization has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2015 AMD'000	2014 AMD'000
Interest income		
Loans to customers	311,623	269,169
Available-for-sale financial assets	143,004	152,305
Cash and cash equivalents	134	202
	454,761	**421,676**
Interest expense		
Amounts payable under repurchase agreements	112,251	95,613
Loans and borrowings	105,856	82,068
	218,107	**177,681**
Net interest income	**236,654**	**243,995**

5 Impairment losses

	2015 AMD'000	2014 AMD'000
Loans to customers (note 10)	28,243	10,112
Other assets	644	(200)
	28,887	**9,912**

6 Other general administrative expenses

	2015 AMD'000	2014 AMD'000
Operating lease expense	10,440	10,440
Depreciation and amortization	6,256	5,003
Professional services	3,450	7,460
Repairs and maintenance	3,180	4,208
Taxes other than on income	2,741	3,265
Loan disbursement expenses	1,987	1,922
Other	11,068	8,265
	39,122	**40,563**

7 Income tax expense

	2015 AMD'000	2014 AMD'000
Current year tax expense	14,055	15,556
Deferred taxation movement due to origination and reversal of temporary differences	(635)	(297)
Total income tax expense	**13,420**	**15,259**

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

Reconciliation of effective tax rate for the year ended 31 December:

	2015 AMD'000	%	2014 AMD'000	%
Profit before income tax	76,276		79,204	
Income tax at the applicable tax rate	15,255	20.0	15,841	20.0
Non-taxable income	(1,835)	(2.4)	(582)	(0.7)
	13,420	**17.6**	**15,259**	**19.3**

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 31 December 2015.

The deductible temporary differences do not expire under current tax legislation. Movements in temporary differences during the years ended 31 December 2015 and 31 December 2014 are presented as follows:

2015 AMD'000	**Balance 1 January 2015**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Balance 31 December 2015**
Available-for-sale financial assets	(2,056)	-	(3,112)	(5,168)
Other liabilities	2,514	635	-	3,149
	458	**635**	**(3,112)**	**(2,019)**

2014 AMD'000	**Balance 1 January 2014**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Balance 31 December 2014**
Available-for-sale financial assets	(34,384)	-	32,328	(2,056)
Other liabilities	2,217	297	-	2,514
	(32,167)	**297**	**32,328**	**458**

(a) Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December comprise the following:

	2015			2014		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	8,151	(1,630)	6,521	(189,694)	37,939	(151,755)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	7,408	(1,482)	5,926	28,057	(5,611)	22,446
Other comprehensive income	**15,559**	**(3,112)**	**12,447**	**(161,637)**	**32,328**	**(129,309)**

8 Cash and cash equivalents

	2015 AMD'000	2014 AMD'000
Cash on hand	**7,192**	**6,132**
Current accounts with banks		
Largest 10 Armenian banks	13,319	13,947
Other Armenian banks	1,001	2,034
Total current accounts	**14,320**	**15,981**
Total cash and cash equivalents	**21,512**	**22,113**

No cash and cash equivalents are impaired or past due.

As at 31 December 2015 and 2014 the Organization has no banks, whose balances exceed 10% of equity.

9 Available-for-sale financial assets

	2015 AMD'000	2014 AMD'000
Held by the Organization		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	**21,011**	**103,369**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	**1,628,439**	**542,462**

10 Loans to customers

	2015 AMD'000	2014 AMD'000
Business loans		
Small companies and sole entrepreneurs	**693,593**	**376,513**
Loans to retail customers		
Mortgage loans	807,319	410,347
Consumer loans secured by real estate	126,624	69,914
Auto loans	84,570	132,754
Consumer loans secured by gold	16,514	19,763
Other consumer loans	320,110	403,946
Total loans to retail customers	**1,355,137**	**1,036,724**
Gross loans to customers	**2,048,730**	**1,413,237**
Impairment allowance	(38,686)	(26,920)
Net loans to customers	**2,010,044**	**1,386,317**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Business loans AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	10,744	16,176	26,920
Net charge	17,118	11,125	28,243
Net write-offs	(12,200)	(4,277)	(16,477)
Balance at the end of the year	**15,662**	**23,024**	**38,686**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Business loans AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	13,224	9,270	22,494
Net charge	4,434	5,678	10,112
Net (write-offs)/recoveries	(6,914)	1,228	(5,686)
Balance at the end of the year	**10,744**	**16,176**	**26,920**

(a) Credit quality of loans to customers

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans,
	AMD'000	AMD'000	AMD'000	%
Business loans				
Loans to small companies and sole entrepreneurs				
Loans without individual signs of impairment	681,918	(14,020)	667,898	2.1%
Overdue or impaired loans:				
- overdue 90-179 days	11,675	(1,642)	10,033	14.1%
Total overdue or impaired loans	11,675	(1,642)	10,033	14.1%
Total business loans	**693,593**	**(15,662)**	**677,931**	**2.3%**
Loans to retail customers				
Mortgage loans				
- not overdue	804,192	(9,650)	794,542	1.2%
- overdue 30-89 days	3,127	(368)	2,759	11.8%
Total mortgage loans	**807,319**	**(10,018)**	**797,301**	**1.2%**
Consumer loans secured by real estate				
- not overdue	126,624	(1,475)	125,149	1.2%
Total consumer loans secured by real estate	**126,624**	**(1,475)**	**125,149**	**1.2%**
Auto loans				
- not overdue	81,442	(1,320)	80,122	1.6%
- overdue less than 30 days	1,595	(154)	1,441	9.7%
- overdue 30-89 days	1,533	(532)	1,001	34.7%
Total auto loans	**84,570**	**(2,006)**	**82,564**	**2.4%**
Consumer loans secured by gold				
- not overdue	16,514	(166)	16,348	1.0%
Total consumer loans secured by gold	**16,514**	**(166)**	**16,348**	**1.0%**
Other consumer loans				
- not overdue	296,023	(5,032)	290,991	1.7%
- overdue less than 30 days	8,058	(220)	7,838	2.7%
- overdue 30-89 days	12,028	(1,656)	10,372	13.8%
- overdue 90-179 days	976	(252)	724	25.8%
- overdue more than 180 days	3,025	(2,199)	826	72.7%
Total other consumer loans	**320,110**	**(9,359)**	**310,751**	**2.9%**
Total loans to retail customers	**1,355,137**	**(23,024)**	**1,332,113**	**1.7%**
Total loans to customers	**2,048,730**	**(38,686)**	**2,010,044**	**1.9%**

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Loans to small companies and sole entrepreneurs				
Loans without individual signs of impairment	363,739	(7,784)	355,955	2.1%
Overdue or impaired loans:				
- overdue less than 30 days	9,490	(1,104)	8,386	11.6%
- overdue 180-360 days	3,284	(1,856)	1,428	56.5%
Total overdue or impaired loans	12,774	(2,960)	9,814	23.2%
Total business loans	**376,513**	**(10,744)**	**365,769**	**2.9%**
Loans to retail customers				
Mortgage loans				
- not overdue	398,664	(4,276)	394,388	1.1%
- overdue less than 30 days	11,683	(1,371)	10,312	11.7%
Total mortgage loans	**410,347**	**(5,647)**	**404,700**	**1.4%**
Consumer loans secured by real estate				
- not overdue	69,914	(1,555)	68,359	2.2%
Total consumer loans secured by real estate	**69,914**	**(1,555)**	**68,359**	**2.2%**
Auto loans				
- not overdue	131,662	(1,314)	130,348	1.0%
- overdue less than 30 days	1,092	(109)	983	10.0%
Total auto loans	**132,754**	**(1,423)**	**131,331**	**1.1%**
Consumer loans secured by gold				
- not overdue	19,763	(381)	19,382	1.9%
Total consumer loans secured by gold	**19,763**	**(381)**	**19,382**	**1.9%**
Other consumer loans				
- not overdue	398,308	(6,581)	391,727	1.7%
- overdue less than 30 days	1,084	(104)	980	9.6%
- overdue 30-89 days	3,914	(372)	3,542	9.5%
- overdue 90-179 days	640	(113)	527	17.7%
Total other consumer loans	**403,946**	**(7,170)**	**396,776**	**1.8%**
Total loans to retail customers	**1,036,724**	**(16,176)**	**1,020,548**	**1.6%**
Total loans to customers	**1,413,237**	**(26,920)**	**1,386,317**	**1.9%**

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

(i) Business loans

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 business loans include the following:

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

The Organization estimates loan impairment for business loans 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 business loans, management makes the following key assumption:

- for non-impaired business loans the Organization creates a collective provision of 2.1% considering the economic environment and industry average loss experience.

Changes in the estimate could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on business loans as at 31 December 2015 would be AMD 6,779 thousand lower/higher (2014: AMD 3,658 thousand lower/higher).

(ii) Loans to retail customers

The Organization 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:

- for other consumer loans loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months;
- historic annual loss rate for mortgage loans and consumer loans secured by real estate of 1.2%.

Changes in the estimate could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment allowance on loans to retail customers as at 31 December 2015 would be AMD 39,963 thousand lower/higher (2014: AMD 30,616 thousand lower/higher).

(c) Analysis of collateral

(i) Business loans

Business loans 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 Organization generally requests corporate borrowers to provide it.

The following tables provide information on collateral and other credit enhancements securing business loans, net of impairment, by types of collateral:

	31 December 2015	31 December 2014
AMD'000	**Loans to customers, carrying amount**	**Loans to customers, carrying amount**
Loans without individual signs of impairment		
Real estate	240,894	135,405
Motor vehicles	227,341	123,619
Guarantees provided by individuals	54,458	68,790
Corporate guarantees	51,645	25,223
Corporate shares	93,560	-
Other collateral	-	2,918
Total loans without individual signs of impairment	**667,898**	**355,955**
Overdue or impaired loans		
Real estate	10,033	-
Motor vehicles	-	8,341
Guarantees provided by individuals	-	1,473
Total overdue or impaired loans	**10,033**	**9,814**
Total business loans	**677,931**	**365,769**

The tables above exclude overcollateralization.

For loans secured by multiple type collateral, collateral that is most relevant for impairment assessment is disclosed.

Guarantees received from individuals, such as shareholders of small companies and sole entrepreneurs, are not considered for impairment assessment purposes.

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 Organization does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Mortgage loans and auto loans are secured by underlying housing real estate and cars accordingly. Consumer loans are secured by real estate and gold.

The following tables provide information on collateral and other credit enhancements securing other consumer loans, net of impairment, by types of collateral:

	31 December 2015	31 December 2014
AMD'000	**Loans to customers, carrying amount**	**Loans to customers, carrying amount**
Loans without individual signs of impairment		
Real estate	33,986	24,396
Motor vehicles	58,804	126,430
Corporate guarantees	82,357	72,031
Guarantees provided by individuals	106,596	144,703
Other collateral	-	12,131
No collateral	9,248	12,036
Total loans without individual signs of impairment	**290,991**	**391,727**
Overdue or impaired loans		
Motor vehicles	16,935	3,541
Guarantees provided by individuals	2,825	1,508
Total overdue or impaired loans	**19,760**	**5,049**
Total other consumer loans	**310,751**	**396,776**

The tables above exclude overcollateralization. For loans secured by multiple type collateral, collateral that is most relevant for impairment assessment is disclosed.

Guarantees received from individuals in a possession of a real estate or other property, are not considered for impairment assessment purposes.

Management estimates that the fair value of collateral estimated at the inception of the loans, is at least equal to the carrying amounts for mortgage loans, auto loans and consumer loans secured by real estate and consumer loans secured by gold as at 31 December 2015 and 2014 excluding the effect of overcollateralization.

(iii) Repossessed collateral

During the year ended 31 December 2015 the Organization obtained assets with a fair value of AMD 12,224 thousand by taking possession of collateral for loans to customers (2014: AMD 16,779 thousand). The repossessed collateral comprises real estate (2014: real estate and motor vehicles) and is included in other assets.

As at 31 December 2015 the repossessed collateral comprises real estate (2014: real estate and motor vehicles) and is classified as other assets.

The Organization's policy is to sell these assets as soon as it is practicable.

(d) Assets under lien

As at 31 December 2015, loans to customers with a gross value of AMD 725,802 thousand (2014: AMD 314,831 thousand) serve as collateral for secured loans from resident financial organizations (see note 13).

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2015 AMD'000	2014 AMD'000
Services	166,274	115,171
Trade	188,299	179,994
Energy	121,069	-
Transportation	135,105	1,546
Construction	20,131	31,323
Manufacturing	15,891	19,269
Other	46,824	29,210
Loans to retail customers	1,355,137	1,036,724
	2,048,730	**1,413,237**
Impairment allowance	(38,686)	(26,920)
	2,010,044	**1,386,317**

(f) Significant credit exposures

As at 31 December 2015 the Organization has one borrower (2014: one), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 is AMD 121,069 thousand (2014: AMD 81,123 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 15 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

11 Property, equipment and intangible assets

AMD'000	Computers and other equipment	Fixtures and fittings	Motor vehicles	Computer software	Total
Cost					
Balance at 1 January 2015	5,642	8,450	6,456	5,800	26,348
Additions	276	748	10,716	300	12,040
Disposals	(370)	(780)	-	-	(1,150)
Balance at 31 December 2015	**5,548**	**8,418**	**17,172**	**6,100**	**37,238**
Depreciation and amortization					
Balance at 1 January 2015	4,281	3,719	1,931	2,152	12,083
Depreciation and amortization for the year	727	1,818	3,113	598	6,256
Disposals	(346)	(593)	-	-	(939)
Balance at 31 December 2015	**4,662**	**4,944**	**5,044**	**2,750**	**17,400**
Carrying amount					
At 31 December 2015	**886**	**3,474**	**12,128**	**3,350**	**19,838**

AMD'000	Computers and other equipment	Fixtures and fittings	Motor vehicles	Computer software	Total
Cost					
Balance at 1 January 2014	4,267	7,378	6,456	5,800	23,901
Additions	1,375	1,072	-	-	2,447
Balance at 31 December 2014	**5,642**	**8,450**	**6,456**	**5,800**	**26,348**
Depreciation and amortization					
Balance at 1 January 2014	2,683	2,095	705	1,597	7,080
Depreciation and amortization for the year	1,598	1,624	1,226	555	5,003
Balance at 31 December 2014	**4,281**	**3,719**	**1,931**	**2,152**	**12,083**
Carrying amounts					
At 31 December 2014	1,361	4,731	4,525	3,648	14,265
At 1 January 2014	**1,584**	**5,283**	**5,751**	**4,203**	**16,821**

12 Amounts payable under repurchase agreements

	2015 AMD'000	2014 AMD'000
Amounts due to resident banks	**1,533,521**	**523,609**

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

The securities lent or sold under agreements to repurchase are transferred to a third party and the Organization receives cash in exchange. These financial assets may be re-pledged or resold by counterparties in the absence of default by the Organization, but the counterparty has an obligation to return the securities at the maturity of the contract. The Organization has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These securities of AMD 1,628,439 thousand (2014: AMD 542,462 thousand) are presented as "pledged under sale and repurchase agreements" in note 9. The cash received is recognized as a financial asset and a financial liability is recognized for the obligation to repay the purchase price for this collateral.

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

13 Loans and borrowings

This note provides information about the contractual terms of the Organization's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Organization's exposure to interest rate, foreign currency and liquidity risk, see note 15.

	2015 AMD'000	2014 AMD'000
Secured loans from resident financial organizations	628,455	328,634
Unsecured borrowings from shareholder	378,408	265,699
Unsecured borrowings from resident non-financial organizations	252,811	68,976
Unsecured borrowings from resident financial organisation	85,864	-
Secured loans from a resident bank	33,250	224,344
	1,378,788	**887,653**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2015		31 December 2014	
’000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured loans from a resident financial organization	AMD	8%-9.5%	2019-2024	482,862	482,862	233,622	233,622
Secured loans from a resident financial organization	AMD	5.5%	2023-2024	145,593	145,593	95,012	95,012
Unsecured borrowings from shareholder	USD	6%-11%	On demand	203,969	203,969	52,445	52,445
Unsecured borrowings from shareholder	AMD	8%-16%	On demand	157,169	157,169	115,963	115,963
Unsecured borrowings from shareholder	AMD	0%	On demand	17,270	17,270	97,291	97,291
Unsecured borrowings from resident non-financial organizations	AMD	14%-15%	2017-2020	124,211	124,211	-	-
Unsecured borrowings from resident non-financial organizations	USD	10.5%	2016	120,972	120,972	-	-
Unsecured borrowings from resident non-financial organizations	AMD	8%	2017	7,628	7,628	10,286	10,286
Unsecured borrowings from resident non-financial organizations	AMD	14%-15%	On demand	-	-	58,690	58,690
Unsecured borrowings from resident financial organisation	AMD	8.5%	On demand	85,864	85,864	-	-
Secured loans from a resident bank	USD	11.25%	2016	29,203	29,203	97,219	97,219
Secured loans from a resident bank	USD	12%	2016	4,047	4,047	35,792	35,792
Secured loans from a resident bank	USD	12%	2015	-	-	91,333	91,333
				1,378,788	**1,378,788**	**887,653**	**887,653**

(b) Concentrations of loans and borrowings

As of 31 December 2015 the Organization has five counterparties (2014: four counterparties), including the shareholder, whose balances exceed 10% of total equity. These balances as of 31 December 2015 are AMD 1,320,389 thousand (2014: AMD 818,677 thousand).

(c) Security

The secured loans from a resident bank are secured by the Organization’s share capital of AMD 561,000 thousand (see note 14(a)).

(d) Sub loan pledge

As at 31 December 2015, loans to customers with a gross value of AMD 725,802 thousand (2014: AMD 314,831 thousand) serve as collateral for secured loans from resident financial organizations (see note 10).

14 Share capital

(a) Issued capital

As at 31 December 2015 the authorized, issued and outstanding share capital comprises 275 shares (2014: 275). All shares have a nominal value of AMD 2,040 thousand.

The holders of 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 Organization.

As at 31 December 2015 and 2014 the Organization's share capital is pledged under secured loans from a resident bank. The details of collateral are presented in note 13(c).

(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 Organization, which are determined according to legislation of the Republic of Armenia.

As at 31 December 2015 and 2014 and as of the date these financial statements were authorized for issue no dividends were declared by the Organization.

15 Risk management

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

(a) Risk management policies and procedures

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

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

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

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through the Management and the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Organization. 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.

(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, currency 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.

The Organization manages its market risk by setting open position limits in relation to interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Board of Directors.

(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 Organization is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2015							
ASSETS							
Cash and cash equivalents	503	-	-	-	-	21,009	21,512
Available-for-sale financial assets	28,322	72,697	93,962	1,027,048	427,421	-	1,649,450
Loans to customers	132,570	122,907	301,715	979,458	473,394	-	2,010,044
	161,395	**195,604**	**395,677**	**2,006,506**	**900,815**	**21,009**	**3,681,006**
LIABILITIES							
Amounts payable under repurchase agreements	1,533,521	-	-	-	-	-	1,533,521
Loans and borrowings	502,238	24,157	162,627	379,766	310,000	-	1,378,788
	2,035,759	**24,157**	**162,627**	**379,766**	**310,000**	**-**	**2,912,309**
Interest rate gap	**(1,874,364)**	**171,447**	**233,050**	**1,626,740**	**590,815**	**21,009**	**768,697**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	2,152	-	-	-	-	19,961	22,113
Available-for-sale financial assets	6,739	26,432	31,453	581,207	-	-	645,831
Loans to customers	117,468	181,794	193,484	667,640	225,931	-	1,386,317
	126,359	**208,226**	**224,937**	**1,248,847**	**225,931**	**19,961**	**2,054,261**
LIABILITIES							
Amounts payable under repurchase agreements	523,609	-	-	-	-	-	523,609
Loans and borrowings	370,122	66,076	102,615	175,779	173,061	-	887,653
	893,731	**66,076**	**102,615**	**175,779**	**173,061**	**-**	**1,411,262**
Interest rate gap	**(767,372)**	**142,150**	**122,322**	**1,073,068**	**52,870**	**19,961**	**642,999**

Average effective interest rates

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

	2015 Average effective interest rate, %		2014 Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest bearing assets				
Cash and cash equivalents	1.9%	-	2.5%	-
Available-for-sale financial assets	15.9%	-	12.2%	-
Loans to customers	19.2%	20.2%	19.2%	22.2%
Interest bearing liabilities				
Amounts payable under repurchase agreements	10.7%	-	23.7%	-
Loans and borrowings	7.0%	10.1%	8.6%	11.2%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2015 and 2014 is as follows:

	2015 AMD'000	2014 AMD'000
100 bp parallel fall	9,913	3,791
100 bp parallel rise	(9,913)	(3,791)

An analysis of sensitivity of equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 2014 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2015	2014
	Equity AMD'000	Equity AMD'000
100 bp parallel fall	47,451	10,614
100 bp parallel rise	(47,451)	(10,614)

(ii) Currency risk

The Organization has assets and liabilities denominated in USD.

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 31 December 2015 and 2014:

	2015	2014
USD	**AMD'000**	**AMD'000**
ASSETS		
Cash and cash equivalents	3,124	104
Loans to customers	501,134	304,844
Total assets	**504,258**	**304,948**
LIABILITIES		
Loans and borrowings	358,191	276,789
Total liabilities	**358,191**	**276,789**
Net position	**146,067**	**28,159**

A weakening of the AMD, as indicated below, against the USD at 31 December 2015 and 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Organization considers to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2015	2014
	AMD'000	**AMD'000**
10% appreciation of USD against AMD	14,607	2,816

A strengthening of the AMD against the USD at 31 December 2015 and 2014 would have had the equal but opposite effect on the USD 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 Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration. Management actively monitors credit risk. The credit policy is reviewed and approved by Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (business loans and loans to retail customers)
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit applications are originated by the relevant credit specialists, who are responsible for the preparation of credit application reports based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then reviewed and approved by the Management.

The Organization 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 Organization.

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

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

	2015 AMD'000	**2014 AMD'000**
ASSETS		
Cash and cash equivalents	14,320	15,981
Available-for-sale financial assets	1,649,450	645,831
Loans to customers	2,010,044	1,386,317
Other financial assets	2,522	1,713
Total maximum exposure	**3,676,336**	**2,049,842**

Collateral generally is not held against cash and cash equivalents and investments in securities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 10. The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 17.

As at 31 December 2015 the Organization has no debtors or groups of connected debtors (2014: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

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 Organization'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 Organization 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 Organization or the counterparties. In addition, the Organization and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 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 offset in case of bankruptcy**	
				Financial instruments	**Net amount**
Amounts payable under repurchase agreements	(1,533,521)	-	(1,533,521)	1,533,521	-
Loans and borrowings	(1,378,788)	-	(1,378,788)	725,802	(652,986)
Total financial liabilities	**(2,912,309)**	**-**	**(2,912,309)**	**2,259,323**	**(652,986)**

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

AMD'000

Types of financial 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 offset in case of bankruptcy**	
				Financial instruments	**Net amount**
Amounts payable under repurchase agreements	(523,609)	-	(523,609)	523,609	-
Loans and borrowings	(887,653)	-	(887,653)	314,831	(572,822)
Total financial liabilities	**(1,411,262)**	**-**	**(1,411,262)**	**838,440**	**(572,822)**

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 Organization will 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 risk of losses.

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

The Organization seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from shareholder, banks and other lending institutions, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The following tables show the undiscounted cash flows on financial liabilities and credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment.

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

AMD’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Amounts payable under repurchase agreements	1,541,041	-	-	-	-	1,541,041	1,533,521
Loans and borrowings	481,429	41,413	51,461	218,797	956,227	1,749,327	1,378,788
Other financial liabilities	1,147	314	4,431	943	-	6,835	6,835
Total liabilities	**2,023,617**	**41,727**	**55,892**	**219,740**	**956,227**	**3,297,203**	**2,919,144**
Credit related commitments	**1,250**	**-**	**-**	**-**	**-**	**1,250**	**1,250**

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

AMD’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Amounts payable under repurchase agreements	528,476	-	-	-	-	528,476	523,609
Loans and borrowings	340,569	42,359	85,913	122,879	461,341	1,053,061	887,653
Other financial liabilities	2,886	513	4,729	-	-	8,128	8,128
Total liabilities	**871,931**	**42,872**	**90,642**	**122,879**	**461,341**	**1,589,665**	**1,419,390**
Credit related commitments	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The table below shows an analysis, by contractual maturities, of the amounts recognized 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
Non-derivative assets								
Cash and cash equivalents	21,512	-	-	-	-	-	-	21,512
Available-for-sale financial assets	-	28,322	166,659	1,027,048	427,421	-	-	1,649,450
Loans to customers	35,272	97,298	424,622	970,358	473,394	-	9,100	2,010,044
Property, equipment and intangible assets	-	-	-	-	-	19,838	-	19,838
Other assets	2,522	-	-	-	-	15,169	-	17,691
Total assets	**59,306**	**125,620**	**591,281**	**1,997,406**	**900,815**	**35,007**	**9,100**	**3,718,535**
Non-derivative liabilities								
Amounts payable under sale and repurchase agreements	1,533,521	-	-	-	-	-	-	1,533,521
Loans and borrowings	477,083	24,503	186,784	380,418	310,000	-	-	1,378,788
Deferred tax liability	-	-	-	-	-	2,019	-	2,019
Other liabilities	1,147	314	5,374	-	-	11,756	-	18,591
Total liabilities	**2,011,751**	**24,817**	**192,158**	**380,418**	**310,000**	**13,775**	**-**	**2,932,919**
Net position	**(1,952,445)**	**100,803**	**399,123**	**1,616,988**	**590,815**	**21,232**	**9,100**	**785,616**

The Organization plans to extend the term of repurchase agreements in order to finance its liquidity position in a short term. Subsequent to the reporting date the Organization extended the term of the repurchase agreements.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	22,113	-	-	-	-	-	-	22,113
Available-for-sale financial assets	-	6,739	57,885	581,207	-	-	-	645,831
Loans to customers	41,766	72,356	375,278	667,640	225,931	-	3,346	1,386,317
Property, equipment and intangible assets	-	-	-	-	-	14,265	-	14,265
Deferred tax asset	-	-	-	-	-	458	-	458
Other assets	1,713	-	-	-	-	69,856	-	71,569
Total assets	**65,592**	**79,095**	**433,163**	**1,248,847**	**225,931**	**84,579**	**3,346**	**2,140,553**
Non-derivative liabilities								
Amounts payable under sale and repurchase agreements	523,609	-	-	-	-	-	-	523,609
Loans and borrowings	337,158	32,964	168,691	175,779	173,061	-	-	887,653
Other liabilities	2,886	513	4,729	-	-	10,850	-	18,978
Total liabilities	**863,653**	**33,477**	**173,420**	**175,779**	**173,061**	**10,850**	**-**	**1,430,240**
Net position	**(798,061)**	**45,618**	**259,743**	**1,073,068**	**52,870**	**73,729**	**3,346**	**710,313**

16 Capital management

The CBA sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA the Organization have to maintain a minimum share capital and total capital of AMD 150,000 thousand (2014: AMD 150,000 thousand). The Organization is in compliance with the statutory capital requirements as at 31 December 2015 and 2014.

Under the current capital requirements set by the CBA, credit organizations conducting foreign exchange transactions in cash for the purpose of accepting loan repayments have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2015, this minimum level is 10% (2014: 10%). The Organization is in compliance with the statutory capital ratio as at 31 December 2015 and 2014.

The calculation of statutory capital ratio based on requirements set by the CBA as at 31 December 2015 and 2014 is as follows:

	2015 AMD'000	**2014 AMD'000**
	Unaudited	**Unaudited**
Share capital	561,000	561,000
Retained earnings	203,943	141,087
Adjustment to CBA accounting principles	(18,136)	(15,249)
Revaluation reserve for available-for-sale financial assets	20,673	8,226
Total capital	**767,480**	**695,064**
Risk-weighted assets	**4,001,340**	**2,368,176**
Statutary capital ratio	**19.2%**	**29.4%**

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

17 Commitments

The Organization has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit lines.

The Organization applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers. The contractual amounts of commitments are set out in the following table. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	2015 AMD'000	**2014 AMD'000**
Contracted amount		
Loan and credit line commitments	**1,250**	-

18 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 Organization does not have full coverage for its premises and equipment, and business interruption. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Organization.

(c) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who 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.

19 Related party transactions

(a) Control relationships

As at 31 December 2015 and 2014, the 100% shareholder and the party with ultimate control over the Organization is Vardan Danghyan.

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

Total remuneration included in personnel expenses for the years ended 31 December 2015 and 2014 is as follows:

	2015 AMD'000	**2014 AMD'000**
Employee compensation	**68,427**	**66,126**

The outstanding balances and average effective interest rates as at 31 December 2015 and 2014 for transactions with the members of the Board of Directors and the Management are as follows:

	2015 AMD'000	Average effective interest rate, %	2014 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	54,778	13.8%	53,556	13.8%
Loan impairment allowance	(548)		(536)	

The loans are in AMD and USD and repayable in 2016-2028.

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

	2015 AMD'000	2014 AMD'000
Profit or loss		
Interest income	**7,565**	**6,895**

(c) Transactions with the shareholder

The outstanding balances and the related average effective interest rates as at 31 December 2015 and 2014 and related profit or loss amounts of transactions for the year ended 31 December 2015 and 2014 with the shareholder are as follows:

	2015 AMD'000	Average effective interest rate, %	2014 AMD'000	Average effective interest rate, %
Statement of financial position				
LIABILITIES				
Loans and borrowings				
- In AMD	174,439	7%	213,255	8.0%
- In USD	203,969	10%	52,445	8.9%
Profit or loss				
Interest expense	(37,610)		(21,728)	

The borrowings from shareholder are payable on demand (see note 13).

20 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

AMD'000	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	21,512	-	-	21,512	21,512
Available-for-sale financial assets	-	1,649,450	-	1,649,450	1,649,450
Loans to customers:					
- Business loans	677,931	-	-	677,931	677,931
- Loans to retail customers	1,332,113	-	-	1,332,113	1,332,113
Other financial assets	2,522	-	-	2,522	2,522
	2,034,078	**1,649,450**	**-**	**3,683,528**	**3,683,528**
Amounts payable under repurchase agreements	-	-	1,533,521	1,533,521	1,533,521
Loans and borrowings	-	-	1,378,788	1,378,788	1,378,788
Other financial liabilities	-	-	6,835	6,835	6,835
	-	-	**2,919,144**	**2,919,144**	**2,919,144**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

AMD'000	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	22,113	-	-	22,113	22,113
Available-for-sale financial assets	-	645,831	-	645,831	645,831
Loans to customers:					
- Business loans	365,769	-	-	365,769	362,815
- Loans to retail customers	1,020,548	-	-	1,020,548	1,001,402
Other financial assets	1,713	-	-	1,713	1,713
	1,410,143	**645,831**	**-**	**2,055,974**	**2,033,874**
Amounts payable under repurchase agreements	-	-	523,609	523,609	523,609
Loans and borrowings	-	-	887,653	887,653	887,653
Other financial liabilities	-	-	8,128	8,128	8,128
	-	**-**	**1,419,390**	**1,419,390**	**1,419,390**

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models.

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

(b) Fair value hierarchy

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

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

AMD’000	**Level 1**	**Level 2**	**Total**
Available-for-sale financial assets			
- Debt instruments	-	1,649,450	1,649,450

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

AMD’000	**Level 1**	**Level 2**	**Total**
Available-for-sale financial assets			
- Debt instruments	-	645,831	645,831