Grant Thornton

Financial Statements and Independent Auditor's Report

"CARD AgroCredit" universal credit organization closed joint stock company

31 December 2015

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Independent auditor's report

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To the Shareholder and Board of Directors of "CARD AgroCredit" universal credit organization closed joint stock company:

We have audited the accompanying financial statements of "CARD AgroCredit" universal credit organization closed joint stock company (the "Company"), which comprise the statement of financial position as of December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management of the audited entity 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.

Auditor's 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 give a true and fair view of the financial position of the "CARD AgroCredit" universal credit organization closed joint stock company as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing Partner

Zaruhi Gharibyan
Audit manager

Grant Thornton CJSC
1 March, 2016
Yerevan

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2015**	Year ended December 31, 2014
Interest and similar income	6	**1,035,335**	848,281
Interest and similar expense	6	**(446,713)**	(330,093)
Net interest income		**588,622**	518,188
Fee and commission income		**31,093**	33,778
Fee and commission expense		**(1,951)**	(1,566)
Net fee and commission income		**29,142**	32,212
Gains less losses from trading in foreign currencies		**(85)**	(477)
Foreign currency translation net gains of non-trading assets and liabilities		**221**	788
Other income	7	**31,960**	13,158
Impairment charge	8	**(206,588)**	(67,024)
Administrative and other operating expenses	9	**(413,465)**	(327,329)
Profit before income tax		**29,807**	169,516
Income tax expense	10	**(10,134)**	(36,529)
Profit for the year		**19,673**	132,987
Total comprehensive income for the year		**19,673**	132,987

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Cash and cash equivalents	11	**168,195**	91,992
Amounts due from financial institutions	12	**264,701**	161,975
Loans and advances to customers	13	**6,508,684**	6,010,220
Finance lease receivables	14	**91,334**	72,975
Investments available for sale	15	**18,258**	-
Property, plant and equipment and intangible assets	16	**278,767**	273,900
Prepaid income taxes		**13,149**	-
Deferred income tax assets	10	**22,182**	14,841
Other assets	17	**87,808**	48,785
TOTAL ASSETS		**7,453,078**	6,674,688
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	18	**6,324,330**	5,568,279
Current income tax liabilities		**-**	10,078
Other liabilities	19	**74,434**	61,690
Total liabilities		**6,398,764**	5,640,047
Equity			
Share capital	20	**604,500**	604,500
Statutory general reserve		**30,599**	23,308
Retained earnings		**419,215**	406,833
Total equity		**1,054,314**	1,034,641
TOTAL LIABILITIES AND EQUITY		**7,453,078**	6,674,688

The financial statements from pages 3 to 40 were approved by the Board of the Company on 1 March, 2016 and signed by the Company's Executive Director and Chief Accountant.

Karen Petrosyan
Executive Director

Andranik Mosinyan
Chief accountant

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

"ՔԱՐԴ Ագրոկրեդիտ" "КАРД АгроКредит" "CARD AgroCredit" 01564154

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Retained earnings	Total
Balance as of January 1, 2014	604,500	16,398	295,756	916,654
Distribution to reserve	-	6,910	(6,910)	-
Dividends to shareholders	-	-	(15,000)	(15,000)
Transactions with owners	-	6,910	(21,910)	(15,000)
Profit for the year	-	-	132,987	132,987
Total comprehensive income for the year	-	-	132,987	132,987
Balance as of December 31, 2014	**604,500**	**23,308**	**406,833**	**1,034,641**
Distribution to reserve	**-**	**7,291**	**(7,291)**	**-**
Transactions with owners	**-**	**7,291**	**(7,291)**	**-**
Profit for the year	**-**	**-**	**19,673**	**19,673**
Total comprehensive income for the year	**-**	**-**	**19,673**	**19,673**
Balance as of December 31, 2015	**604,500**	**30,599**	**419,215**	**1,054,314**

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2015**	Year ended December 31, 2014
Interest received	**983,751**	816,532
Interest paid	**(443,978)**	(289,415)
Fee and commission received	**32,803**	33,779
Fee and commission paid	**(1,951)**	(1,563)
Staff costs paid	**(214,182)**	(151,882)
Administrative and other operating expenses paid	**(84,743)**	(82,322)
Income tax paid	**(40,702)**	(57,093)
Other taxes paid	**(82,396)**	(74,504)
Inflow from surety agreement	**2,728**	12,357
Cash flows from operating activities before changes in operating assets	**151,330**	205,889
Net decrease in loans to customers	**(690,765)**	(2,229,681)
Net cash used in operating activities	**(539,435)**	(2,023,792)
Cash flows from investing activities		
Purchase of investment securities	**(18,258)**	-
Acquisition of fixed assets	**(36,543)**	(122,197)
Purchase of assets leased out under finance lease	**(130,181)**	(58,479)
Receipts from finance lease receivable	**88,255**	65,612
Placement of deposits at banks	**(85,000)**	(127,354)
Interest received from placement of deposits at banks	**32,091**	18,434
Net cash used in investing activities	**(149,636)**	(223,984)
Cash flows from financing activities		
Proceeds from borrowings	**2,961,640**	5,110,963
Repayment of borrowings	**(2,196,934)**	(2,777,476)
Dividend paid	**-**	(14,250)
Net cash generated from financing activities	**764,706**	2,319,237
Net increase in cash and cash equivalents	**75,635**	71,461
Cash and cash equivalents at the beginning of the year	**91,992**	20,295
Effect of exchange rate changes on cash and cash equivalents	**568**	236
Cash and cash equivalents at the end of the year (note 11)	**168,195**	91,992

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"CARD AgroCredit" UCO CJSC (the "Company") is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2008. The Company is regulated by the legislation of RA and conducts its business under license number 23, granted on 27 June 2008 by the Central Bank of Armenia (the "CBA"). As of December 2015, the Company's immediate parent company was Agrovision B.V. and ultimate parent was Center for Agribusiness and Rural Development Foundation.

Company is an initiative member of "Loan Portfolio Securitization Fund I".

The principal activity of Company is lending. The Company provides a comprehensive package of financial services throughout the entire chain of agricultural production, processing and marketing, including operational and business development loans, farm development and seasonal loans to food processing enterprises, rural small and medium entities and private farmers.

The registered office of the Company is located at 1/21-40 Azatutyan Street, Yerevan 0037, Republic of Armenia. The Company has 3 branches in RA regions.

2 Armenian business environment

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

Financial assets and liabilities are stated at amortized cost, except for available for sale financial assets which are stated at fair value. Non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

There was not any new standard, interpretation or amendment applied for the first time for annual periods beginning on or after 1 January 2015. And none of the changes made in the standards applied for that periods had material impact on the financial statements of the Company.

3.5 Standards and interpretations not yet applied by the Company

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

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

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

***IFRS 9 Financial Instruments* (2014)**

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

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

- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*

- *Sale of Contribution of Assets between an Investor and its Associate or its Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

Revenue is recognized when the Company's right to receive the payment is established. According to the Tax Legislation of Republic of Armenia dividend income is non-taxable.

Net trading income

Net trading income comprises gains less losses related to foreign exchange differences and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency translation

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

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

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

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

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

	December 31, 2015	December 31, 2014
AMD/1 US Dollar	**483.75**	474.97
AMD/1 Euro	**528.69**	577.47

4.3 Taxation

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

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

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from other financial institutions

In the normal course of business, the Company maintains deposits the maturity of which from the acquisition date is 90 days. Deposits with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.6 Financial instruments

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

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

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

The Company classified its financial assets into the following categories:

- loans and receivables,
- held-to-maturity investments.
- available-for-sale financial assets,

The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

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

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

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Available-for-sale financial instruments

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

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

4.7 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Impairment allowances of financial assets have been established in the financial statements on the basis of existing economic conditions. Company is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale financial assets

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

4.8 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

4.9 Leases

Finance – Company as lessor

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

When the Company takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Operating - Company as lessee

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

4.10 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. The Company’s buildings and lands are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	Rate (%)
Buildings	20	5
Computers	3	33.3
Vehicles	5	20
Other fixed assets	5	20

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

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

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

4.11 Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

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

4.12 Repossessed assets

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

4.13 Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.14 Provisions

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

4.15 Share capital

Share capital

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

Accumulated loss

Includes accumulated loss of current and previous periods.

Dividends

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

Dividends paid to shareholders are payable from the profit after tax and according to the Tax legislation of RA are non-taxable.

4.16 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 23).

Classification of investment securities

Securities owned by the Company comprise corporate bonds. Upon initial recognition, the Company designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Useful Life of PPE

Useful life evaluation of PPE is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Refer to Note 22.

Impairment of loans and receivables

The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. Refer to Note 13.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 21.

6 Interest and similar income and expense

In thousand Armenian drams	2015	2014
Loans and advances to customers	**974,900**	812,675
Amounts due from financial institutions	**47,014**	22,718
Finance lease receivables	**13,421**	12,888
Total interest and similar income	**1,035,335**	848,281
Borrowings	**446,713**	330,093
Total interest and similar expense	**446,713**	330,093

7 Other income

In thousand Armenian drams	2015	2014
Fines and penalties received	**30,251**	12,640
Other income	**1,709**	518
Total other income	**31,960**	13,158

8 Impairment charge

In thousand Armenian drams	2015	2014
Loans and advances to customers (Note 13)	**201,000**	66,242
Other assets (Note 17)	**5,588**	782
Total impairment charge	**206,588**	67,024

9 Other expenses

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	**246,625**	202,674
Fixed assets maintenance (buildings, intangibles, etc.)	**18,735**	17,639
Depreciation of property and equipment	**36,918**	16,805
Advertising costs	**3,558**	1,731
Business trip expenses	**6,858**	6,880
Communications	**5,070**	3,531
Operating lease	**13,212**	15,021
Taxes, other than income tax, duties	**2,517**	4,865
Consulting and other services	**5,800**	10,860
Security	**1,736**	850
Representative expenses	**2,624**	640
Office supplies	**3,166**	4,704
Penalties paid	**-**	1,205
Staff training costs	**16,465**	4,524
Loan collection fee	**9,468**	7,109
Entrance fees for professional associations	**4,973**	4,524
Insurance expenses	**8,126**	4,990
Other expenses	**27,614**	18,777
Total other expense	**413,465**	327,329

10 Income tax expense

In thousand Armenian drams	2015	2014
Current tax expense	**17,475**	40,827
Adjustments of current income tax of previous years	**-**	3,286
Deferred tax	**(7,341)**	(7,584)
Total income tax expense	**10,134**	36,529

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2014: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2015	Effective rate (%)	2014	Effective rate (%)
Profit before tax	**29,807**		169,516	
Income tax at the rate of 20%	**5,961**	**20**	33,903	20
(Non-taxable income)/ non-deductible expenses	**4,217**	**14**	(502)	-
Foreign exchange gains	**(44)**	**-**	(158)	-
Adjustments of current income tax of previous years	**-**	**-**	3,286	2
Income tax expense	**10,134**	**34**	36,529	22

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2014	Recognized in profit or loss	As of December 31, 2015
Loans and advances to customers	**12,714**	**6,242**	**18,956**
Other assets	**-**	**539**	**539**
Other liabilities	**2,781**	**665**	**3,446**
Total deferred tax assets	**15,495**	**7,446**	**22,941**
Amounts due to financial institutions	**(454)**	**(305)**	**(759)**
Other assets	**(200)**	**200**	**-**
Total deferred tax liability	**(654)**	**(105)**	**(759)**
Net deferred tax asset	**14,841**	**7,341**	**22,182**

In thousand Armenian drams	As of December 31, 2013	Recognized in profit or loss	As of December 31, 2014
Loans and advances to customers	3,941	8,773	12,714
Other liabilities	3,603	(822)	2,781
Total deferred tax assets	7,544	7,951	15,495
Amounts due to financial institutions	(67)	(387)	(454)
Other assets	(220)	20	(200)
Total deferred tax liability	(287)	(367)	(654)
Net deferred tax asset	7,257	7,584	14,841

11 Cash and cash equivalents

In thousand Armenian drams	**2015**	2014
Bank accounts	**37,869**	26,846
Deposits for less than 90 days	**130,326**	65,146
Total cash and cash equivalents	**168,195**	91,992

As of 31 December 2015 the amounts of correspondent accounts in amounts of AMD 161,393 thousand (96%) were due from one commercial bank which is a significant concentration (2014: AMD 90,092 thousand (98%) were due from three commercial banks).

Non-cash transactions performed by the Bank during 2015 are represented by:

- repayment of AMD 9,559 thousand loan by transfer of property rights on pledge (2014: AMD 7,224 thousand).

12 Amounts due from financial institutions

In thousand Armenian drams	**2015**	2014
Bank deposits	**249,024**	161,975
Other receivables	**15,677**	-
Total amounts due from financial institutions	**264,701**	161,975

Loans and deposits are not impaired or overdue.

All deposits in banks have more than 90 days of maturity.

As at 31 December 2015 the amounts of deposits to financial institutions were due from three commercial banks, which represent significant concentration (2014: two banks).

As at December 2015 deposits in the amount of AMD 163,000 thousand were pledged as collateral for loans received from banks (2014: AMD 100,000 thousand).

13 Loans and advances to customers

In thousand Armenian drams	2015	2014
Individuals	**4,712,667**	4,306,994
Privately held companies	**1,110,015**	981,444
Sole proprietors	**1,068,820**	898,786
	6,891,502	6,187,224
Less allowance for loan impairment	**(382,818)**	(177,004)
Total loans and advances to customers	**6,508,684**	6,010,220

As of 31 December 2015 accrued interest income included in loans and advances to customers amounted to AMD 77,702 thousand (2014: AMD 67,262 thousand).

During the year ended 31 December 2015 the Company obtained assets by taking possession of collateral for loans to customers. As of 31 December 2015 the carrying amount of such assets was AMD 35,418 thousand (2014: AMD 32,342 thousand). The Company is intended to sell these assets in a short period.

As of 31 December 2015 the weighted average effective interest rate on loans and advances to customers was 15.14 % for loans in AMD (2014: 16.84 %) and 12.17 % for loans in USD (2014: 12.18 %).

As of December 31, 2015, the Company had a concentration of loans represented by AMD 1,106,496 thousand due from the ten largest third party entities (16% of gross loan portfolio) (2014: AMD 1,116,344 thousand or 18%). An allowance of AMD 36,514 thousand (2014: AMD 19,667 thousand) was made against these loans.

Loans and advances to customers by economic sectors are as follows:

In thousand Armenian drams	2015	2014
Fruit and vegetable production	**3,384,452**	3,273,699
Milk production	**1,462,921**	973,056
Trade	**751,707**	559,201
Milk processing	**235,455**	522,243
Meat production	**408,267**	253,782
Fish production	**80,511**	101,815
Wine and brandy production	**60,580**	72,064
Other	**507,609**	431,364
Less allowance for loan impairment	**(382,818)**	(177,004)
Total loans and advances to customers	**6,508,684**	6,010,220

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

In thousand Armenian drams	Privately held companies	Individuals	Sole proprietors	2015 Total
At 1 January 2015	**16,815**	**137,068**	**23,121**	**177,004**
Charge for the year	**24,161**	**143,878**	**32,961**	**201,000**
Recoveries	**496**	**2,902**	**1,416**	**4,814**
At 31 December 2015	**41,472**	**283,848**	**57,498**	**382,818**
Individual impairment	**5,006**	**132,611**	**22,943**	**160,560**
Collective impairment	**36,466**	**151,237**	**34,555**	**222,258**
	41,472	**283,848**	**57,498**	**382,818**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**5,006**	**132,611**	**22,943**	**160,560**

In thousand Armenian drams	Privately held companies	Individuals	Sole proprietors	2014 Total
At 1 January 2014	12,471	90,105	6,191	108,767
Charge for the year	4,344	45,820	16,078	66,242
Amounts written off	-	1,143	852	1,995
At 31 December 2014	16,815	137,068	23,121	177,004
Individual impairment	-	61,123	6,341	67,464
Collective impairment	16,815	75,945	16,780	109,540
	16,815	137,068	23,121	177,004
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	61,123	6,341	67,464

Maturity analysis of loans and advances to customers are disclosed in Note 24.

Other analyses of loans and advances to customers are disclosed in Note 25. The information on related party balances is disclosed in Note 22.

In December 2015 the Company sold 114 loans to the "Loan Portfolio Securitization Fund I", with the carrying amount of AMD 167,222 thousand, however; it still continues servicing these loans. As a part of securitization process of loan portfolio, the Company has also acquired bonds issued by the "Loan Portfolio Securitization Fund I" (refer to Note 15). According to the loan disposal contract the Company is obliged to repurchase the loans, which will become problematic till their maturity date (refer to Note 21).

14 Finance lease receivables

In thousand Armenian drams	2015	2014
Individuals	**39,544**	34,822
Privately held companies	**51,790**	38,153
Total finance lease receivables	**91,334**	72,975

The finance lease receivables may be analysed as follows:

In thousand Armenian drams	Not later than 1 year	1-5 years	Later than 5 years	Total
Finance lease payments receivable at 31 December 2015	**21,287**	**41,128**	**28,111**	**90,526**
Unearned finance income	**538**	**230**	**40**	**808**
Present value of lease payments receivable at 31 December 2015	**21,825**	**41,358**	**28,151**	**91,334**
Finance lease payments receivable at 31 December 2014	42,318	29,461	-	71,779
Unearned finance income	678	518	-	1,196
Present value of lease payments receivable at 31 December 2014	42,996	29,979	-	72,975

Finance lease receivables by economic sectors are as follows:

In thousand Armenian drams	2015	2014
Fruits and vegetables	**28,447**	23,792
Wine Production	**12,391**	23,392
Milk Processing	**8,726**	14,761
Milk Production	**-**	11,030
Meat production	**41,770**	-
	91,334	72,975

15 Investments available for sale

In thousand Armenian drams	As of December 31, 2015	As of December 31,2014
Unquoted investments		
Shares	**18,258**	-
Total investments available for sale	**18,258**	-

For raising the enhancement of the credit portfolio the Loan Portfolio Securitization Fund I has issued and the Company as an initiative member has acquired subordinated, non-paper, nominal, non-equity, no voting right giving certificates of participation, that comprise 16,419 units of A class certificates with nominal value of 1 AMD, having total nominal value of 16,419 thousand drams and purchase price of 18,285 thousand drams.

Due to the participation certificated the Company bears the risk of the assets sold to the Fund, which will be repaid as of the Fund's liquidation with the subordination condition after the repayment of the bonds (refer to note 15).

All unquoted available-for-sale investments are recorded at fair value using the valuation technique based on the net asset method.

16 Property, plant and equipment and intangible assets

In thousand Armenian drams	Buildings	Vehicles	Computers	Fixtures and fittings	Assets under construction	Computer software	Total
COST							
Cost at January 1, 2014	-	50,074	18,159	6,769	120,839	4,260	200,101
Additions	-	10,444	16,329	30,175	57,616	2,229	116,793
Disposal	-	-	(52)	(22)	-	-	(74)
At December 31, 2014	-	60,518	34,436	36,922	178,455	6,489	316,820
Additions	**-**	**20,746**	**11,813**	**8,970**	**222**	**198**	**41,949**
Disposals	**-**	**-**	**(603)**	**-**	**-**	**-**	**(603)**
Reclassification	**178,677**	**-**	**-**	**-**	**(178,677)**	**-**	**-**
At December 31, 2015	**178,677**	**81,264**	**45,646**	**45,892**	**-**	**6,687**	**358,166**
ACCUMULATED DEPRECIATION							
At January 1, 2014	-	16,538	6,825	945	-	1,881	26,189
Expenses for the year	-	9,171	5,450	1,686	-	498	16,805
Disposal	-	-	(52)	(22)	-	-	(74)
At December 31, 2014	-	25,709	12,223	2,609	-	2,379	42,920
Expenses for the year	**7,364**	**11,504**	**9,806**	**7,315**	**-**	**929**	**36,918**
Disposals	**-**	**-**	**(439)**	**-**	**-**	**-**	**(439)**
At December 31, 2015	**7,364**	**37,213**	**21,590**	**9,924**	**-**	**3,308**	**79,399**
CARRYING VALUE							
At December 31, 2015	**171,313**	**44,051**	**24,056**	**35,968**	**-**	**3,379**	**278,767**
At December 31, 2014	-	34,809	22,213	34,313	178,455	4,110	273,900
At January 1, 2014	-	33,536	11,334	5,824	120,839	2,379	173,912

Fully depreciated items

As at 31 December 2015 fixed assets included fully depreciated assets with cost of AMD 20,436 thousand (2014: AMD 12,939 thousand).

Restrictions on title of fixed assets

As at 31 December 2015, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

17 Other assets

In thousand Armenian drams	2015	2014
Debtors and other receivables	**9,279**	785
Impairment allowance on other assets	**(4,496)**	**-**
Total other financial assets	**4,783**	785
Repossessed collateral	**35,418**	32,342
Prepayments	**20,351**	10,675
Prepayments on other taxes	**7,503**	-
Small value items	**3,434**	4,983
Other assets	**16,319**	-
Total non-financial assets	**83,025**	48,000
Total other assets	**87,808**	48,785

As of the date of repossession the collateral, it is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

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

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

In thousand Armenian drams	Total
At January 1, 2014	**-**
Charge for the year	**782**
Amounts written off	**(1,209)**
Recovery	**427**
At December 31, 2014	**-**
Charge for the year	**5,588**
Amounts written off	**(2,024)**
Recoveries	**932**
At December 31, 2015	**4,496**

18 Borrowings

In thousand Armenian drams	2015	2014
Non-current		
Borrowings from international financial institutions	**5,066,388**	4,545,206
Other borrowings	**-**	100,000
	5,066,388	4,645,206
Current		
Bank overdrafts	**-**	110,281
Borrowings from international financial institutions	**957,705**	611,856
Other borrowings	**300,237**	200,936
	1,257,942	923,073
Total borrowings	**6,324,330**	5,568,279

Loans from financial institutions have variable and fixed interest rates.

As at 31 December 2015 the weighted average effective interest rate on amounts due to financial institutions was 7.75% for borrowings in AMD (2014: 7.89 %) and 4.07 % for borrowings in USD (2014: from 4.07 %).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2014: nil).

19 Other liabilities

In thousand Armenian drams	2015	2014
Accounts payables	**3,679**	6,938
Liabilities under surety agreement	**37,180**	35,506
Due to personnel	**13,356**	10,355
Total other financial liabilities	**54,215**	52,799
Tax payable, other than income tax	**2,941**	4,100
Grants related to assets	**4,032**	-
Other liabilities	**13,246**	4,791
Total other non-financial liabilities	**20,219**	8,891
Total other liabilities	**74,734**	61,690

Grants related to assets

Հազար ՀՀ դրամ	2015	2014
At January 1	**-**	-
Increase	**4,961**	-
Recognition of income	**(929)**	-
At December 31	**4,032**	-

20 Equity

As at 31 December 2015 the Company's registered and paid-in share capital was AMD 604,500 thousand. In accordance with the Company's statues, the share capital consists of 465,000 ordinary shares, all of which have a par value of AMD 1,300 each.

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

In thousand Armenian drams	2015		2014	
	Paid-in share capital	**% of total paid-in capital**	Paid-in share capital	% of total paid-in capital
"AgroVision" B.V.	**604,500**	**100**	604,500	100
	604,500	**100**	604,500	100

As at 31 December 2015, the Company did not possess any of its own shares.

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

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books.

21 Contingent liabilities and commitments

Tax and legal matters

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

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

Loans and advances to customers

In December 2015 the Company sold 114 loans to the "Loan Portfolio Securitization Fund I", with the carrying amount of AMD 167,222 thousand, however; still continues servicing these loans. According to the loan sales contract the Company is obliged to repurchase the loans which will become problematic till their maturity date (refer to Note 15). As of reporting date there are not any such loans which will arise repurchase obligation.

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into commercial lease agreements for head office and branch facilities.

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

In thousand Armenian drams	**2015**	2014
Not later than 1 year	**14,844**	10,536
Later than 1 year and not later than 5 years	**16,537**	26,730
Total operating lease commitments	**31,381**	37,266

Insurance

The insurance industry in 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 Company does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

22 Transactions with related parties

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

The ultimate controlling party of the Company is the Center for Agribusiness and Rural Development Foundation, who is the sole owner of Agrovision B.V., the Company's shareholder.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2015		2014	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	**-**	17,625	-	-
Loans issued during the year	**-**	**23,000**	-	19,500
Loan repayments during the year	**-**	**(5,578)**	-	(1,875)
Loans outstanding at December 31, gross	**-**	**35,047**	-	17,625
Less: allowance for loan impairment	**-**	**(350)**	-	(299)
Loans outstanding at December 31	**-**	**34,697**	-	17,326
Other assets				
Other assets at January 1	**776**	**-**	1,161	-
Increase during the year	**1,198**	**-**	1,802	-
Decrease during the year	**(1,957)**	**-**	(2,187)	-
Other assets at December 31	**17**	**-**	776	-
Borrowings				
Borrowings at January 1	**-**	**-**	70,000	-
Borrowings received during the year	**25,000**	**-**	200	-
Borrowings repaid during the year	**-**	**-**	(70,200)	-
Borrowings at December 31	**25,000**	**-**	-	-
Other liabilities (surety agreement)				
Other liabilities at January 1	**35,506**	**-**	24,276	-
Increase during the year	**5,167**	**-**	13,161	-
Decrease during the year	**(3,493)**	**-**	(1,931)	-
Other liabilities at December 31	**37,180**	**-**	35,506	-
Purchases of financial lease assets	**101,600**	**-**	41,411	-
Statement of profit or loss and other comprehensive income				
Income				
Interest income on loans	**-**	**1,770**	-	271
Expenses				
Impairment charge	**-**	**51**	-	299
Interest expense on borrowings	**60**	**-**	3,057	-
Rent expenses	**-**	**-**	6,102	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and bonuses	**94,086**	77,972
Total key management compensation	**94,086**	77,972

The loans issued to directors and other key management personnel during the year are repayable monthly from 2 to 10 years and have interest rates from 6-7%. The loans advanced to the directors during the year are collateralised by guarantees.

23 Fair value measurement

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

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

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

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

23.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	**As of 31 December 2015**				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**168,195**	**-**	**168,195**	**168,195**
Amounts due from financial institutions	**-**	**264,701**	**-**	**264,701**	**264,701**
Loans and advances to customers	**-**	**6,508,684**	**-**	**6,508,684**	**6,508,684**
Finance lease receivables	**-**	**91,334**	**-**	**91,334**	**91,334**
Other assets	**-**	**4,783**	**-**	**4,783**	**4,783**
FINANCIAL LIABILITIES					
Borrowings	**-**	**6,324,330**	**-**	**6,324,330**	**6,324,330**
Other liabilities	**-**	**54,215**	**-**	**54,215**	**54,215**

In thousand Armenian drams	As of 31 December 2014				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	91,992	-	91,992	91,992
Amounts due from financial institutions	-	161,975	-	161,975	161,975
Loans and advances to customers	-	6,010,220	-	6,010,220	6,010,220
Finance lease receivables	-	72,975	-	72,975	72,975
Other assets	-	785	**-**	785	785
FINANCIAL LIABILITIES					
Borrowings	-	5,568,279	-	5,568,279	5,568,279
Other liabilities	-	52,799	-	52,799	52,799

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

23.2 Financial instruments that are measured at fair value

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

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Unquoted bonds	-	18,258	-	18,258	18,258

24 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 25.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams						2015
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Subtotal less than 12 months	More than 1 year	Total
ASSETS						
Cash and cash equivalents	168,195	-	-	168,195	-	168,195
Amounts due from financial institutions	15,103	236,904	12,694	264,701		264,701
Loans and advances to customers	313,759	931,564	1,752,107	2,997,430	3,511,254	6,508,684
Finance lease receivables	6,732	20,910	21,152	48,794	42,540	91,334
Investments available for sale	-	-	-	-	18,258	18,258
Other assets	4,783			4,783		4,783
	508,572	1,189,378	1,785,953	3,483,903	3,572,052	7,055,955
LIABILITIES						
Borrowings	122,039	447,690	688,471	1,258,200	5,066,130	6,324,330
Other liabilities	54,215	-	-	54,215	-	54,215
	176,254	447,690	688,471	1,312,415	5,066,130	6,378,545
Net position	332,318	741,688	1,097,482	2,171,488	(1,494,078)	677,410
Accumulated gap	332,318	1,074,006	2,171,488		677,410	

In thousand Armenian drams	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Subtotal less than 12 months	More than 1 year	Total 2014
ASSETS						
Cash and cash equivalents	91,992	-	-	91,992	-	91,992
Amounts due from financial institutions	-	100,783	-	100,783	61,192	161,975
Loans and advances to customers	121,740	709,278	1,533,673	2,364,691	3,645,529	6,010,220
Finance lease receivables	6,093	20,417	16,534	43,044	29,931	72,975
Other assets	785	-	-	785	-	785
	220,610	830,478	1,550,207	2,601,295	3,736,652	6,337,947
LIABILITIES						
Borrowings	121,547	272,052	529,474	923,073	4,645,206	5,568,279
Other liabilities	50,999	1,800	-	52,799	-	52,799
	172,546	273,852	529,474	975,872	4,645,206	5,621,078
Net position	48,064	556,626	1,020,733	1,625,423	(908,554)	716,869
Accumulated gap	48,064	604,690	1,625,423		716,869	

25 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management structure

The Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board

The Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive board

The Executive Board has the responsibility to monitor the overall risk process within the Company.

Internal audit

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

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation

The Company actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

25.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit department and reported to the Executive Board regularly.

The carrying amounts of the Company's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

25.1.1 Risk concentrations

Geographical sectors

At December 31, 2015 and 2014 credit risk assets are located in the RA.

Industry sectors

At December 31, 2015 and 2014 The Company's risk assets included in cash and cash equivalents and amounts due from financial institutions are centralised in financial sector. Loans and advances to customers and finance lease receivables are centralised mainly in the agricultural sector (see detailed analysis in notes 13 and 14).

25.1.2 Risk limit control and mitigation policies

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

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored regularly.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances and finance lease are:

- Mortgages over residential properties;
- Equipment and vehicles.

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

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

In thousand Armenian drams	**2015**	2014
Loans collateralized by real estate	**4,138,072**	3,743,650
Loans collateralized by PPE	**401,870**	131,473
Loans collateralized by vehicles	**397,233**	163,374
Unsecured loans/guarantees	**1,954,327**	2,148,727
Total loans and advances to customers (gross)	**6,891,502**	6,187,224

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

25.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

Loans and advances neither past due or impaired

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

In thousand Armenian drams	**2015 (%)**	2014 (%)
Fish production	**3.3**	2
Fruit and vegetable production	**3.3**	1.8
Milk production	**3.3**	1.8
Milk processing	**3.3**	1.6
Meat production	**3.3**	1.6
Trade	**3.3**	2
Wine and brandy production	**3.3**	1.6
Other	**3.3**	1.7

As of 31 December 2015 and 2014 the Company has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

In thousand Armenian drams				**2015**
	Less than 30 days	**31 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers				
Loans to individuals	**101,642**	**125,167**	**134,670**	**361,479**
Loans to legal entities	**31,733**	**13,113**	**8,259**	**53,105**
Loans to individuals - entrepreneurs	**57,308**	**-**	**-**	**57,308**
Total	**190,683**	**138,280**	**142,929**	**471,892**

In thousand Armenian drams				2014
	Less than 30 days	31 to 90 days	More than 91 days	Total
Loans and advances to customers				
Loans to individuals	36,224	47,369	16,482	100,075
Loans to legal entities	-	1,605	-	1,605
Loans to individuals - entrepreneurs	-	-	-	-
Total	36,224	48,974	16,482	101,680

25.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on Value at Risk ("VaR") methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	2015		2014	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	**10**	**(311)**	10	(271)
USD	**-10**	**311**	-10	271
EUR	**10**	**21**	10	38
EUR	**-10**	**(21)**	-10	(38)

The Company's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Total**
ASSETS			
Cash and cash equivalents	**149,113**	**19,082**	**168,195**
Amounts due from financial institutions	**264,701**	**-**	**264,701**
Loans and advances to customers	**6,132,118**	**376,566**	**6,508,684**
Finance lease receivables	**91,334**	**-**	**91,334**
Investments available for sale	**18,258**	**-**	**18,258**
Other assets	**4,783**	**-**	**4,783**
	6,660,307	**395,648**	**7,055,955**
LIABILITIES			
Borrowings	**5,925,777**	**398,553**	**6,324,330**
Other liabilities	**54,215**	**-**	**54,215**
	5,979,992	**398,553**	**6,378,545**
Net position as at 31 December 2015	**680,315**	**(2,905)**	**677,410**
Total financial assets	5,765,733	572,214	6,337,947
Total financial liabilities	5,046,530	574,548	5,621,078
Net position as at 31 December 2014	719,203	(2,334)	716,869

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

25.3 Liquidity risk

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

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. See note 24 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's deposit retention history.

In thousand Armenian drams					2015
	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Borrowings	**124,867**	**567,879**	**895,958**	**5,842,196**	**7,430,900**
Other liabilities	**52,415**	**1,800**	**-**	**-**	**54,215**
Total undiscounted non-derivative financial liabilities	**177,282**	**569,679**	**895,958**	**5,842,196**	**7,485,115**

In thousand Armenian drams					2014
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
NON-DERIVATIVE FINANCIAL LIABILITIES					
Borrowings	125,701	359,105	712,136	4,645,206	5,842,148
Other liabilities	50,999	1,800	-	-	52,799
Total undiscounted non-derivative financial liabilities	176,700	360,905	712,136	4,645,206	5,894,947

25.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

26 Capital adequacy

The Central Bank of Armenia has set the minimum value of the total normative capital amounting to AMD 150,000 thousand from January 1, 2012.

The Company maintains an actively managed capital base to cover risks inherent in the business.

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, general reserve and corresponding decreases defined by the CBA.

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